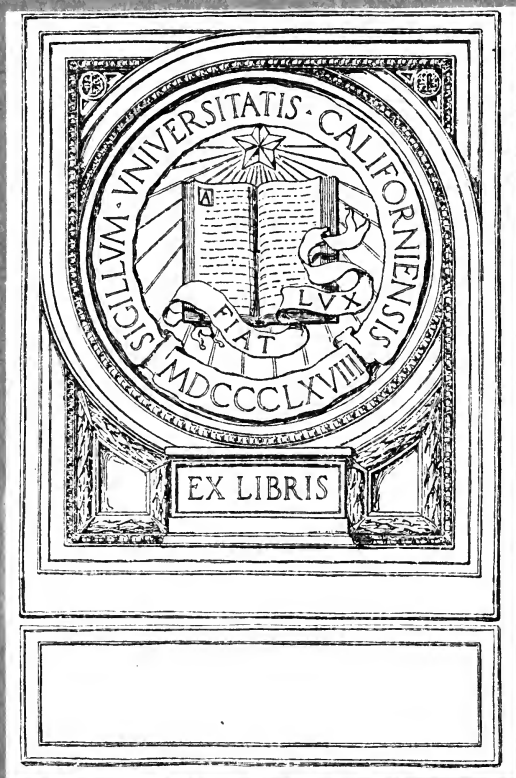


ECONOMICS  
OF  
BUSINESS  

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BRISCO









# ECONOMICS OF BUSINESS



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TORONTO

# ECONOMICS OF BUSINESS

BY

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## PREFACE

DURING the past twenty-five years, American industrial and business life has undergone many changes. Increased competition cut profits to a narrow margin, and in order to lower costs, the entrepreneur has been driven to a study of factory conditions. The factory, therefore, is to-day the center of investigation and study. The wastes of time, energy and materials revealed by this study amazed even the most successful entrepreneurs. Efficiency, the modern watchword, demands organization, system, cost accounting, coöperation and coördination and touches business activities outside the factory, as advertising, buying and selling. No branch of industry has escaped investigation, and the result is a great awakening to the lack of method and system.

This study of the various kinds of business activities has produced a literature treating different phases of business. Of all such contributions, the most significant are those made by successful business men who recounted their own experiences, pointed out the broad principles to be derived therefrom and explained the methods by which these principles may be specifically applied. From an analysis of such data, and from a study of the methods of many successful business enterprises have been deduced the fundamental principles underlying business. To express these principles in clear and simple language is the purpose of this book.

The author has endeavored to produce a book which will assist business men in their efforts to obtain greater efficiency, and in which business principles are presented in such clear, non-technical language, that they may be successfully taught in the class room.

NORRIS A. BRISCO.

NEW YORK, May, 1913.



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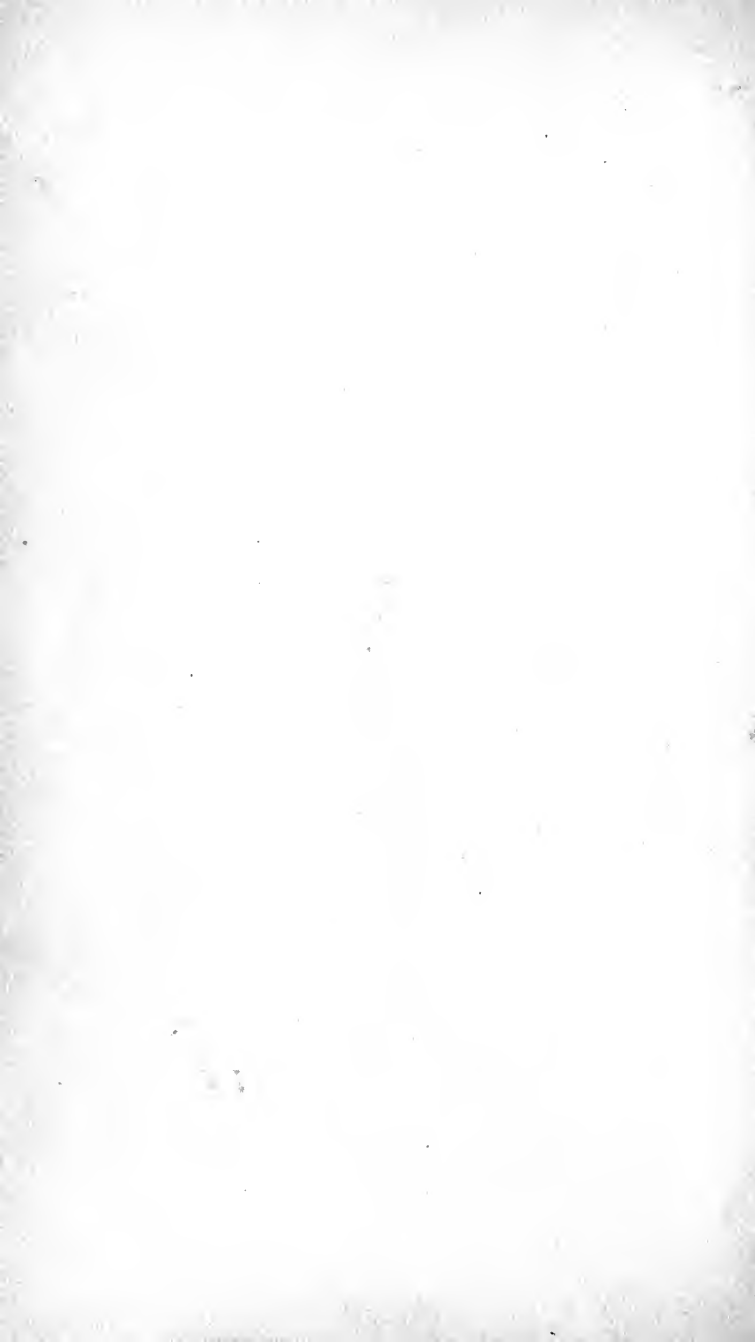
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# ECONOMICS OF BUSINESS





# ECONOMICS OF BUSINESS

## CHAPTER I

### ECONOMIC BASIS OF BUSINESS

THE age of the Greek and the Roman was one of prowess and conquest and a man's reputation depended largely upon his deeds of valor. Business was considered unworthy of a gentleman and was carried on only by the lowly. Later, arts and sciences gained in prominence and more respect was paid to business as a vocation. This was followed by an age of discovery, opening up new lands to civilization and giving great impetus to trade and commerce. Still, a business career was not considered a worthy occupation for a gentleman. As time advanced, business received more respect, until to-day, a business career is considered a worthy occupation. Business has never before occupied such an important place in the world's history. As a vocation, it attracts the noble, the rich, the lowly and the ambitious. It gives opportunity to exercise the greatest talents and to the successful, a reward surpassed in no other field of action.

During early times, business an unworthy occupation.

Changed attitude towards business.

A business man has need for drink, food, clothing and shelter, and directs his efforts to satisfy these needs. As a man develops, his wants become more numerous and more diversified.

Economic activities.

He puts forth greater efforts to satisfy his increasing needs. These efforts to obtain the means for the satisfaction of wants are known as economic activities. Economic activities are directed toward accomplishing different ends and are of many varied forms. Business is the name given to many of these forms. At first, it simply meant those activities directed toward providing a livelihood, but later the idea of making a profit was added, and to-day business is any form of economic activity for the purpose of securing profits.

Business of any importance in early modern times took the form of banking or merchant trading. The latter, including shipping, was the only important enterprise involving large investments or any degree of management. The successful outcome of the ventures of the early traders was less a matter of shrewd foresight than it was of good fortune in having favorable weather conditions. The work of the business man under these conditions was simply to take advantage of the seasons and the fluctuations of supply and demand. He was a speculative buyer and seller and paid no heed to production or the processes of industry. But with the discoveries and inventions which ushered in the present industrial system, the risk of trade not only almost disappeared, but the absorbing interest of the business man was no longer that of speculative trade. Production in all its manifold phases has taken its place and to-day is the center of business activity.

Commodities have been produced under the present

industrial system for a period of about one hundred and fifty years. For hundreds of years previous, **Historically, four systems of production.** manufacturing took place either in the household or in simple workshops adjacent thereto.

Historically, four systems have been employed to supply the wants of man. The first and simplest form is the family system. It is found in antiquity and extended as far as the first period of the Middle Ages. The people were divided into small groups or families. The term family included not only the members **Family system.** of the family but also the slaves or serfs belonging to it. The Roman lord with his army of slaves and the feudal baron with his serfs are good examples of this economic period. Each family was practically self-sufficient. Goods were rarely produced for outside consumption and consumption was usually confined to home production.

With the breaking down of the feudal system, the family gave way to the handicraft system. The trades were separated and the workers, independent, **Handicraft system.** no longer toiled in the houses of the consumers. The worker or artisan as he was now called bought his raw material, worked it up in his own house, used his own tools and sold the finished product to the consumer. Everything was finished by hand and this gave the name to the system. The custom was to produce only those goods ordered in advance. Custom tailors and cobblers of to-day are survivals of this early system. The rapid rise of an independent class of artisans who conducted business enterprises followed. These formed themselves into associations for mutual assistance and defense, and

under the name of guilds played a very important part in the history of the Middle Ages.

One weakness of the handicraft system was the uncertainty of selling the product. Few workmen took any risk but confined themselves to making those goods that were ordered. During the latter part of the handicraft period, merchants began to play an important rôle in industry. They bought the finished goods and took the risk of selling them at a profitable price. This was an improvement because it relieved the artisan of the work that he was least prepared to perform. From this custom, it was only a short step to the practice in the domestic system where the middleman owned the raw material as well as sold the finished product.

During the latter part of the Middle Ages, the guilds lost control of trade. The handicraft system slowly decayed and was succeeded by the domestic system which prevailed in England from the middle of the fifteenth to the middle of the eighteenth century. The finished goods were not only sold to the middleman, but from him, the raw product was received. The ownership of each remained with the middleman, and the workman was relieved of the trouble of buying as well as of selling. The artisan was no longer independent but became dependent on the middleman, who as early as the seventeenth century began to call himself "manufacturer." The workman still owned his own tools and worked at home with the aid of his family. He usually lived in the country and devoted a part of his time to tilling the small plot of ground which surrounded his cottage.

The production of goods was divided between two classes, the one buying the raw material and selling the product, and the other furnishing labor, tools and workshop. This division of the industrial system into two distinct classes, capitalists and laborers, marks the beginning of a bitter struggle. Early in the eighteenth century, the first strikes for higher piece-rates took place, and by the middle of the century, strikes were common and were often accompanied by violence and destruction of property.

**Two classes  
of pro-  
ducers.**

The great mechanical inventions and the application of steam power to manufacturing during the latter half of the eighteenth century, introduced many far-reaching changes in the industrial system. The workmen no longer owned their own tools but simply provided the labor which was applied through machines and in workshops owned by the employer. The grouping of laborers and machinery in buildings for the purpose of production is known as the factory system. The factory in place of the home became the unit of production. This necessitated a gathering of laborers into centers and there began a drifting from the country to the city, which has continued with increasing proportions to the present time.

**Factory  
system.**

Those supplying the different factors of production became more and more separated. It was only a short time, until it became the custom for one set of persons to furnish capital, another labor, and still a third, land. With the increase of capital and the improvement of machinery, the factory

**Effects of  
factory  
system.**

made it possible to manufacture goods in larger quantities and of a more varied nature. New improvements in facilities of transportation opened larger markets and to meet the increased demand, production on a larger scale followed. The development of the factory system made the modern business enterprise possible.

Each system did not entirely do away with its predecessor but each in turn was the predominating method of production. In our present industrial system the factory is the chief method of manufacture, yet examples of the domestic system are found in sweatshops and of the handicraft in small workshops of custom tailors and cobblers. The factory system is nevertheless the prevailing type and is the center of our present industrial system. It is the key of our industrial development and the cause of many of our industrial conditions, such as the labor and trust problems.

The factory system with its extensive use of machinery, power and capital, combined with extensive division of labor, introduced new problems of administration. The small business enterprise, with its simple organization and methods, so characteristic of the domestic system, gave way to the large business unit with its complicated organization and complex methods. Intensive organization became a necessity. The independent workman of the two former systems became part of an organization under the guidance of a new official, the manager. A clear and definite line was gradually drawn between managerial ability and labor. A growing demand began for this new type of workman

The factory system, the chief type of our industrial system.

The manager, a new official.

who assumed all responsibility of organization and management. On the other hand, the laborer became a specialist and was deprived of all responsibility except in doing efficiently the work assigned to him.

The development of machinery and cheaper facilities for transportation made possible production on a large scale and in its turn, a greater division of labor to meet the increasing industrial needs. Division of labor. Division of labor means the division of the processes of the making of a commodity into a number of separate processes and intrusting a laborer with the performance of one or two of these. A visit to any large factory shows a score or more separate processes in the making of a single commodity which in former times was entirely made by a single individual. For instance, in making a ready-made coat, there are thirty-nine distinct processes and in the making of a pair of man's brogan shoes, no less than eighty-four. A distinction must be made between division of labor and division of employments where each one devotes his entire time to following one branch of production, as shoemaking, tailoring, etc.

Division of labor greatly increased the number of occupations but at the same time, it restricted the range of work of each workman. Labor was reduced more and more to identical routine. This fostered invention because as soon as a process became automatic, a machine was invented which did the work better and more rapidly than human hands. Effects of division of labor. Machinery did not entirely supersede labor because it required operating and attending and this gave constant demand for skilled and unskilled labor. Labor-

saving machinery in displacing labor has not caused so much suffering as many would have us believe. Production increased at a very rapid rate and this caused a new demand for labor. Those displaced who could easily adapt themselves to the new conditions were soon receiving better wages than they did under the old methods. Nevertheless, it cannot be denied that there was much suffering on the part of those who on account of age or other causes could not meet the demands of the new industrial system.

Adam Smith, during the dawn of the factory system, declared that division of labor was limited by the extent of the market. It is quite evident that the number of articles that a person would care to produce at any one time depends upon the opportunity to dispose of them. The average tailor would not turn out more coats than it is possible for him to sell within his range of sale. To divide the making of a coat between the fitter, the pocket maker, the lining maker, etc., is not advisable unless as many coats can be sold as the combined number produce. The modern ready-made clothing factory turns out thousands of suits daily which would not be the case unless there was market for the output. The chief question is to get sale for the product at a price that covers expenses of production and leaves a margin of profit. As the market of a product is limited so must necessarily be its production. In every case, the limit to which production can be carried depends upon the extent of the market.

**Importance  
of the  
market.**

Business in the broadest sense includes all forms of



economic activity directed to the making of profits. This includes the production of immaterial economic goods as well as material. The lawyer's or the doctor's practice must be considered as business in the same sense as a factory producing material goods or a grocery store selling groceries. In the business world, it is customary to give to business a narrower meaning and to confine it to those economic activities directed to the creation of utilities in material economic goods.

**Business:**  
its broadest  
meaning.

**Its limited  
meaning.**

Some combination of land, labor and capital or labor and capital, is necessary in the production of economic goods. Such a combination whether it consists of the fisherman with his crude home-made net catching fish for the market or the million-dollar corporation is a business unit. The business world is made up of these profit-seeking units, each differing from the other in size, in complexity, in permanence and in the character of the work which it performs. In less progressive countries like China or Russia, a large part of the business is still conducted in small workshops and stores, and even in the most progressive, there are still many units of small size. Business units ranging in size from the single worker using simple tools to the gigantic corporation employing thousands of workmen attending machinery worth millions of dollars and all united under a central head by a complicated organization are found in every branch of our industrial system. The business unit may be more or less of a temporary nature, as in individual proprietorship or partnership where the existence of the

**Business  
units: their  
character-  
istics.**

unit depends entirely upon the lives and the wishes of those interested; or it may be permanent, as in the corporation which continues its existence uninterrupted by the dissatisfaction, death or retirement of its stockholders. The advantages of a permanent organization are so great that the corporation is favored as the best type of business organization.

An interesting classification of business units is made by grouping together those engaged in each of the different branches of production, as extractive, manufacturing, commercial and transporting of goods. **Extractive industries.** Extractive business enterprises are those engaged in getting the raw material from nature, as agriculture, fishing, lumbering and mining. All later processes of production depend on these enterprises for their supply of raw material. In agriculture and in the catching of fish, the business unit is usually small. The prevailing type of organization is individual proprietorship, but partnership and corporation are gradually gaining in prominence. Lumbering which requires more capital has a larger unit and partnership and corporation prevail. Mining with its need of a large amount of capital is conducted almost entirely under the corporate form.

The process of changing the form of a commodity and thereby increasing its value is called manufacturing.

**Manufacturing.** According to its origin, "manufacture" means "to make by hand," but at present, machinery plays such an important part in production, that the word has come to mean almost the opposite. The word "manufacturer" has, under the factory system, assumed

a new meaning, changing from hand worker to the individual who employs others to work for him. As we have seen, goods when first made for sale were made to order. During the latter part of the handicraft period the producer first took an interest in markets. An important change took place and goods were chiefly made to be sold to merchants who found the necessary markets. Finally, under the factory system, the limits of the market increased and it became world-wide rather than local. The business unit increased in size from the little shop of the custom worker to that of the millionaire corporation.

**Manufacturer: old and new meaning.**

Manufacturing ends with the completion of the form-changing process. Theoretically, it is not concerned with the production of raw material or sale of the finished product. Yet the manufacturer buys his raw material and sells his product, but in so doing, he is engaged in commercial activity in addition to manufacturing. Some large enterprises like the Standard Oil Company go still further and extract the raw material, manufacture the finished product, carry their goods by their own transportation lines and sell them to the actual consumer.

**Manufacturing includes commercial activity.**

Many changes of ownership take place from the time the raw material is extracted from mother earth until the finished product is placed in possession of the actual consumer. A great variety of business units are necessary in making the various exchanges and employment is given to hundreds of thousands of people. The transferring of ownership in various commodities is called commerce. It includes all eco-

**Commerce.**

conomic activities which assist in facilitating exchanges.

**Commercial undertakings:** Commercial undertakings may therefore be divided into two great classes, — those engaged in the buying and the selling of commodities and those assisting in bringing about the exchange.

**Stream of modern industry.** The exchange of commodities is not confined to raw materials and finished product but in the various stages of production there is a constant change of ownership from one person to another. A farmer sells a hickory log to a village sawyer. From the time the first exchange takes place until the log becomes spokes in a buggy, it changes hands a dozen or more times. The modern industrial system furnishes a buyer for the raw material in a local center, and by him, it is forwarded to the consumption center. There it passes into possession of wholesalers, warehouse owners or commission merchants to await further distribution. Finally, the raw material reaches the manufacturer who changes its form in a way to meet the demands of the consuming public. After the raw material has been carried through a series of processes and is made ready for consumption, it is bought and sold by wholesale merchants to retailers who take the finished product to the consumer. Such is the stream of industry, carrying the products of mother earth from the producer to the consumer.

**Financial commercial enterprises.** The second class of commercial activity including banking, brokerage, the whole machinery of credit investment and insurance, constitutes the financial side of commerce. The present

industrial system, with its gigantic producing plants, its immense trading establishments and its splendid facilities for transportation, demanded instruments of credit which would make the transfer of goods or rather the transfer of titles, easy and efficient. An intricate and extensive credit system resulted, and this dominates the whole business world. Banks assist in providing depositories for cash, and needed loans, and in trading in credit instruments. Produce exchanges, by more accurately forecasting the future, help manufacturers to eliminate risks. Brokerages of all kinds give valuable assistance either in the buying and in the selling of commodities or in dealing in various credit instruments. The insurance companies aid in assuming in return for a consideration, many risks of production. All these institutions aid the exchange of commodities in numerous ways and are very helpful to our industrial system.

Develop-  
ment of the  
credit  
system.

Finally, transportation or the carrying of goods and persons from one place to another must be considered. Transportation increases the value of a commodity by taking it from place to place. It extends the market and assists specialization. In the great industrial countries, the most important factor in transportation is the railroad. The modern railroad is the most complex of all modern enterprises and is an example of the best organized business undertaking of modern industry. The business unit is large with a growing tendency to greater concentration.

Transportation.

The first and oldest method of transportation was by water. Canals were operated long before the steam

engine was invented. Great improvements cheapening the cost of transportation followed the application of steam power to boats. After the perfecting of the steam engine and the beginning of railroad construction, little attention was paid to canals.

**Methods of transportation.**

**New interest in waterways.**

But during the past decade, the urgent need for conservation of natural resources has resulted in a great interest being taken not only in canal construction, but in the dredging of rivers and waterways. Finally, pipe lines, pneumatic tubes and transfer businesses must not be omitted, as they play an important part in industry.

Besides the various methods of transportation, it is necessary to note transmission of intelligence. The great improvements in the telegraph and the telephone have made these instruments almost indispensable in modern business. The railroad, the steamship, the telegraph and the telephone have accomplished the task of greatly extending the market. They have made possible, greater specialization and the production of commodities on a larger scale. Good facilities and cheapness in transportation and transmission of intelligence are very important factors in every business enterprise.

**Transmission of intelligence.**

The market originally meant the public place in a town where provisions and other articles were offered for sale. Buyers and sellers were confined to the immediate vicinity. This idea is preserved in the local markets of many small towns. It was some time before the outside trader was allowed to take part. With the changes introduced in industrial life under the

**Market.**

industrial system, the boundaries of the markets were extended and became international. The actual presence of buyers and sellers is no longer needed to constitute a market. The post office, the telegraph and the telephone have made this unnecessary. The place where prices are determined by competition is a market. It is immaterial whether goods are actually exposed for sale or bought and sold on the basis of telegraph or telephone orders. "A market in the modern sense is the bringing together of offers and demands which result in the exchange of definite quantities of goods." A market is not any particular place for buying and selling, but the general field through which the forces which determine the price of a commodity operate.

**Extension  
of  
markets.**

**Market :  
its modern  
meaning.**

Supply and demand are two terms which are constantly used in markets as well as in other forms of business activity. The supply of goods on the market does not mean the total stock in existence but the amount which the sellers are willing to sell at a given price. It is distinguished from stock which is an absolute amount independent of price. Demand in a market means the amount of goods which will be taken at a certain price. It must not be confused with desire which lacks the ability to buy goods at the stated price. Desire may lead to demand, but it is different from it, and the two terms must not be used interchangeably.

**Supply and  
demand.**

Each commodity has a separate market, as wheat market, cotton market, coffee market, etc., and for each there is a wholesale as well as a retail market.

The wholesale is more extensive and with the staple and more durable commodities is world-wide and international. The wholesale market for staples in New York responds very quickly to changes in price in English or French markets. The retail market is usually confined to a particular locality. In large cities, there are many retail markets for the same commodity. Retail prices vary between different localities and frequently from one retail store to another.

Markets for goods may be local, national or international. Cheap bulky substances like ordinary building brick and stone, and perishable commodities like milk and cream have local markets. Due to excellent facilities of transportation, most goods have country-wide, and staple articles, like wheat, cotton, coffee, etc., international or world markets. Many commodities which a few years ago had only a local market, have, by the discovery of the refrigerating process and cheaper costs of transportation obtained access to national and in some instances, to world markets, as for example, meat, butter, cheese, eggs, fruit and vegetables. Securities possess similar limitations as to markets. Bonds of governments as well as bonds and stocks of large, well-known corporations have international markets. They are sold and held in all parts of the world. The market for bonds of municipalities and less-known corporations is confined to the countries where they are situated, while bonds and stocks of small local corporations find sale only in the immediate vicinity.



The question of the market is at present very important to every business man. The extension of our markets in order to allow a further extension of our industries is to-day one of the most important economic problems confronting the American people.

In the organization and the working of every business enterprise, there is a coöperation of many economic elements. A factory needs land, buildings, machinery, tools, raw materials, money, goods in process of production, finished goods awaiting sale, labor and management, and a grocery store, land, buildings, fixtures, stock, money, labor, and management. So with every business undertaking, certain economic elements are needed for its operation. Generally speaking, each economic element which enters into industry is a factor but it is customary to group the numerous factors into four classes,—land, labor, capital and management, and to subdivide each into numerous divisions.

The term land includes not only the surface of the earth, materials above and beneath it, bodies of water and what they contain, but physical and natural forces which assist man in his economic activities, as climate, winds, tides, and rainfall. Land assists man in a great many ways: First, a certain amount of the earth's surface is necessary for man to stand upon and more is needed to support the buildings which are necessary to conduct business enterprises. Secondly, inorganic substances as well as plant and animal life on land and in water furnish industry with its supply of raw materials. Thirdly, the various bodies of water furnish means of carry-

Factors of  
production.

Land.

Its aid in  
production.

ing commodities and persons from place to place. The rivers and waterfalls provide motor power for many of our industries. Fourthly, natural forces assist man in many ways. Without them, no element of life could exist upon earth. The adaptability of climatic conditions is very necessary to the pursuit of certain business enterprises. In the spinning of fine fabrics, a moist atmosphere is needed. On the other hand, in order to preserve the aroma of tobacco, a dry climate is required in the manufacture of cigars and cigarettes. Some fruits like oranges and pineapples require heat, moisture and little cold and only flourish where these climatic conditions prevail. Excessive heat checks industry and enterprise and only in temperate regions are energetic and enterprising people found.

The second factor in business and of co-equal importance with the first is man. By his efforts, the raw materials are taken from mother earth and converted into utilities to satisfy human wants.

Utilities are capacities or qualities in goods to satisfy human wants and their creation is production.

The efforts of man directed toward the creation of utilities are called labor. Labor includes not only the efforts of persons engaged in the creation of utilities of a material form but services that yield utilities of an immaterial nature as those of a doctor, lawyer or domestic servant.

Some err by making a division of labor into physical and mental. The labor of the most unskilled workman requires some mental effort while the mental efforts of the high-salaried manager

are associated with a certain amount of physical exercise. All kinds of labor involve both physical and mental efforts and differ from one another only in the degree in which the physical and the mental efforts predominate.

Land and man are the two primary factors of business. Man alone can accomplish little without the assistance of a third factor, capital. Capital consists of economic goods produced in the past and used for further production. The capital of a country therefore consists of buildings used for industrial purposes, tools, machinery, transportation systems, money, raw material, finished goods awaiting sale, etc. Capital is not like land and labor an independent factor in production but is obtained from the application of human efforts to land and is therefore secondary. The use of capital in its various concrete forms greatly assists production, makes possible great specialization, economizes labor and permits extensive utilization of natural materials and forces.

In an ordinary business undertaking, it is the practice for one class of persons to supply land, another capital, and still another labor. The task of co-operating these factors is a very important one. The business manager or entrepreneur who performs this work has come to occupy such an important place in modern business, that it is necessary to regard him as a separate factor, distinct from other classes of labor. The entrepreneur has charge of all the industrial forces and upon him depends, in a large measure, the success or failure of a business undertaking.

From the standpoint of management and reward, there are three different methods of conducting a business enterprise, namely, public ownership, coöperation and entrepreneurship. The first includes all business undertakings owned and managed by the government whether federal, state or local, and in which the government obtains the profits or suffers the losses, as the electric light and gas plants in many cities and towns, telegraph, telephone and railway systems in many foreign countries, the post office in the United States and the tobacco industry in France.

The second class includes all coöperative undertakings. The aim is to dispense with the entrepreneur and leave the management of a business to workmen. The workmen elect one or more of their number to manage the business and divide among themselves the profits. The success of a business depends as much if not more upon able management as upon faithful workmen. Laborers are rarely able to find among themselves a man capable of managing a business. If there is a man of unusual ability, jealousy of his superiority usually excludes him. If the laborers be successful in securing a man of managerial ability, the pay is so low that soon higher pay will induce him to go elsewhere. Coöperative enterprises have trouble in obtaining capital. It is impossible to run a business without capital and the larger the business the more is needed. Laborers seldom have sufficient for the need and in such undertakings it is hard to raise money on credit. Laborers as a rule are

extremely jealous of one another. There is always the fear that one might obtain a slight advantage over another. This jealousy or mutual distrust prevents the proper coöperative spirit, and is often the cause of failure. There is always the danger that in case of success a change will be made from coöperative form to entrepreneurship.

Coöperation exists in many forms and instances of its operation are found in all civilized countries. The greatest success has been in distributive co-operation which consists of the sale of finished products. The customers form a stock com-

**Kinds of  
coöpera-  
tion.**

pany, subscribe for the shares, select one of their number to do the managing or hire a manager from the outside, and start business.

**Distribu-  
tive.**

Such coöperative stores are frequent in Great Britain but are not a success in America due to the fact that they cannot compete with large departmental stores. The second form is productive coöperation or where workmen combine to carry on a productive enterprise on their own account. They

**Productive.**

elect one or more of their own number to manage the business and share among themselves the profits. Coöperative production has met with little success in England, some in France and a few decided successes in America. There are a great many obstacles in the way of its general adoption as a substitute for competition. The third class is coöperative credit institutions and takes the form of banks, loaning companies and building associations. Such enterprises have made a wonderful advance during the

**Credit in-  
stitutions.**

last few years. Their greatest success has been in Germany but many individual instances are found in the United States. Finally, we have coöperative marketing or where producers form associations for the purpose of marketing their produce. This in the form of fruit growers' associations and coöperative orange companies has been a success in America. Coöperation, where possible, is the ideal system but the difficulties in the path of its success are so great that no great development can be looked for in the near future.

The last form, entrepreneurship, is the prevailing method in our complex industrial system. The entrepreneur organizes and manages the business enterprise, receiving his reward from profits or what is left after all expenses have been paid. Individual proprietorship, partnership and corporation are the three forms through which entrepreneurship operates. There is no fear of the entrepreneur losing his place in the modern industrial system as a result of either state ownership or co-operation. He will continue to organize and manage business enterprises because in him the greatest efficiency can be obtained.

The development of industry from the narrow sphere of the home to world-wide scope has completely revolutionized every branch of business. The business unit has increased from the simple workshop to the gigantic corporation with intricate and complex organization. Inventions and improvements in endless succession have everywhere in-

**Marketing.**

**Entrepreneurship.**

**Varieties.**

**Effect of industrial development on business.**

creased the effectiveness of all business enterprise until to-day the world is progressing at a greater speed than ever before. This is an age of business. Business is done on a gigantic scale. This has increased the importance of the entrepreneur and on him depends the success or failure of our industrial system.

### QUESTIONS

1. Account for the difference between the present and the former attitude towards a business vocation.
2. Chronologically, what are the four systems of production? Give characteristics of each.
3. What have been the effects of capital and division of labor upon the development of our present industrial system?
4. What do business men mean by business?
5. What is a market? Why is production said to be limited by the extent of the market?
6. What is the difference between (a) supply and stock? (b) demand and desire?
7. What is a business unit? Give its chief characteristics.
8. Why should managerial ability be placed in a class separate from labor?
9. Name and explain the different methods of undertaking a business.
10. What are the chief causes for failure of coöperative enterprises?
11. What are the different factors of production? How does each assist in production?
12. Name the different branches of production. Give the characteristics of each.
13. Name and explain the different varieties of coöperation.
14. Account for the difference between the present meaning of the word manufacturer and its former meaning.
15. Trace the evolution of (a) entrepreneur; (b) merchant.

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## CHAPTER II

### TYPES OF BUSINESS ORGANIZATIONS

THE entrepreneur's task of coördinating land, labor and capital, and of assuming all responsibilities and risks of business is the bone and sinew of every business enterprise. The functions of the entrepreneur may be performed by a single person or by several, according to the form of business organization. Three types of business organization, single entrepreneurship, partnership and corporation, give scope for the exercise of the entrepreneur's functions.

Types of  
business  
organiza-  
tions.

"The simplest form of business organization is that in which a single person controls the whole enterprise."

Any individual may start himself in business without any legal formality except in some cases where payment of a license fee is required. He may do his own work and use his own capital, as the carpenters, doctors and lawyers usually do, or he may employ hired workmen and borrowed capital.

Single  
entrepre-  
neurship.

A person may engage in any kind of business unless forbidden by law or when necessary fulfilling certain legal requirements. In the United States, a business man cannot engage in carrying the mails or coining money because these are monopolies of the government; cannot conduct a public lottery because it is forbidden on the grounds of public

Limitations  
on business  
undertak-  
ings.

policy ; and cannot engage in certain enterprises like the liquor trade without first obtaining a special license.

The obligations of single entrepreneurship are the personal obligations of the proprietor. All his possessions

are at the mercy of his business risks. If a  
**Liability.** business man possesses considerable property which has no connection with his business undertaking and should fail every dollar that he owns can be taken to meet his obligations. Few men have the capital to conduct a large enterprise, and if they have, few wish to stake their whole fortune on a single business undertaking.

Single entrepreneurship is obviously only adapted to a limited number of business undertakings: those

**Type adapted to few enterprises.** where the capital required for the enterprise is small ; those where the risks of the business are slight ; those where the credit and capital of the individual are adequate ; and those where operation and management are not too intricate or onerous for the average business man. These requirements are suitable in agriculture, the retail trade and local manufacturing industries, and in these fields, this form of organization still predominates.

The simplest form of organization in which two or more persons are associated for the purpose of carrying

on business is a partnership. "A partnership  
**Partnership.** is a combination of two or more persons who agree to conduct a business enterprise for their common benefit," and are jointly and severally responsible for

its management. It is formed by the agree-  
**Formation.** ment of the parties interested. The agreement is usually written, but it may be oral or even implied from

the actions of two or more persons. Any lawful business may be carried on and a change may, at any time, be made from one kind of business to another. The partners are all on an equal basis in the management of an enterprise. Each represents the partnership fully and can make contracts for it without consulting the other partners, and any contracts so made are binding on all.

Each partner is personally liable to the full extent of his wealth for all debts contracted by the partnership, as well as for those contracted by any member in the ordinary course of business. This is known as unlimited liability and is one of the great drawbacks of this form of business organization. An exception to unlimited liability is made in certain states, where laws provide for limited partnership, in which certain partners called "special" are responsible for only the amount that they have invested, but are not allowed any active part in the management of the business.

Unlimited liability ;  
a drawback.

Special partners.

Partners may have written agreements among themselves concerning the amount of money each should invest, the division of profits and losses, and the various duties each should perform. Such agreements do not release a member from debts incurred by a firm or its members in the ordinary course of business. They only give a basis for recovery by legal action of personal loss from other members of a firm. The partnership is not recognized as a legal business unit, and hence in every legal action the name of every partner must appear. A partner cannot make a contract with his firm, or bring

Agreements do not release from liability.

Not a legal unit.

suit against it, or be sued by it, any more than he can act for or against himself.

A partner cannot assign his partnership to another. He must call for a distribution of assets and retire. This

**Dissolution.** dissolves the partnership, and if the remaining partners wish to continue the business, a

new partnership must be formed. Frequently a new partnership continues business under the old name. When a partner wishes to retire, and a basis of settlement

**Methods.** cannot be reached, he must ask the court to appoint a receiver to wind up the business.

A new member cannot be taken into a partnership without the consent of all the members, in which case, a new partnership is formed. A partnership may be dissolved at any time at the will of any partner. The date of termination may be written in the contract. A partnership comes to an end by the death or insolvency of a member, by mutual agreement, by court action, by the retiring of a partner, or by the admission of a new member.

Partnerships, from the character of the business conducted, may be divided into two classes, — general and

**General.** special. A general partnership is one created for the purpose of conducting some general line

of business, while a special is one formed for a special business transaction. Ordinary commercial

**Special.** and professional partnerships are of the first type, while those formed for the purpose of improving a plot of real estate or perfecting a patent are examples of the second class.

According to the laws of many states, a joint stock company is a partnership authorized by law to act under

a corporate name, to be subject to certain conditions, and to issue stock to its members. It is continuous and any member may transfer his stock. A new partner may be introduced with or without the consent of the members, and without dissolving the previous organization. The stock represents the interest of the members in the profits and property of the business. A board of directors or trustees is elected to control the business and no member has the power to act for the company as a whole. A joint stock company sues and defends in the name of an officer empowered for that purpose. It is formed like an ordinary partnership by the agreement of members among themselves. The members are like joint partners in that they are individually liable for debts of the company. A joint stock company lacks the attractive features of a corporation and is an infrequent form of business organization.

Joint stock company.

Characteristics.

The partnership, until fifty years ago, was the prevailing type of business organization, but with the increase in size of the business unit and the use of large sums of capital in business enterprises, the unlimited liability of the partnership proved a drawback and the corporation, with limited liability, came into prominence. The partnership nevertheless has certain advantages. It can be easily organized and dissolved. It escapes many of the taxes levied upon corporations. It possesses elasticity, that is, the ease with which the relations of the partners among themselves may be determined and altered to meet changing conditions. Partnership is a favorite form of organiza-

Advantages of partnership.

tion among professional men. It still holds a prominent place in the mercantile business and in small local manufacturing enterprises. But wherever the business unit is large, and a large amount of capital is involved, it has given place to the corporation.

The written agreement by which parties enter into a partnership is usually called articles of copartnership.

**Articles of copartnership.** It is necessary that the parties forming a partnership should have a distinct understanding of all important matters concerning the undertaking, and consequently, the articles are of the utmost importance and the greatest care should be exercised in drawing them. When once drawn and signed, no changes can be made unless assented to by all members of the partnership. The articles differ with the nature of the business and the character of the work to be performed but some things are common to all partnerships, and with these, extreme care should be taken to have everything clear and definite.

**Essentials.** The articles should first contain the names of the contracting parties with their addresses, followed by a statement that the parties do by this instrument enter into a partnership. Persons legally capable of making a contract, partnerships and in some cases corporations can enter into partnership. The date of commencement, the duration and the name of the firm should be stated. The nature of the business should be carefully specified and the name of the place where it is to be conducted should be given. The amount and the kind of capital that each one invests should be stated and the apportionment of profits and losses should

be provided for. The duties and rights of each partner should be carefully outlined because this frequently prevents later misunderstandings. Lastly, provision should be made for the final settlement of the affairs of the partnership.

“A corporation is an association of two or more persons formed and authorized by statute to act as a single person in the conduct of a specified business.”

An exception to this definition may be made Corporation.

where a single person is made a corporate body in order to obtain certain legal capacities, especially that of perpetuity, which, as a natural person, he would not have. A king and bishop are in England examples of sole corporation, as it is called, but in the United States, very rare instances are found. Sole corporation.

Members of a corporation are not the corporation. They compose it, but the corporation is a separate, distinct, artificial person, possessing an entity and

existence of its own, entirely apart from that of its members. A corporation's property, contracts and debts belong to the corporation itself and not to the members. Under its corporate name, a corporation may buy and sell, may contract debts, may sue and be sued and may enter into all kinds of legal contracts just as individuals may do. Corporation, a separate entity.

Corporations may be divided into two distinct classes,—public and private. “Public corporations are those formed by the people of a community

for governmental purposes, as the municipal corporations of cities, towns and villages.” All other corporations are private corporations. Classes.

“All other corporations are private corporations.” Public.

Public-service corporations, such as railroads, telephone and telegraph systems, electric light and gas companies, are frequently called quasi-public but as they are conducted for profit, must be classed as private corporations.

Private corporations may be divided into two classes, — non-stock and stock. Non-stock or membership corporations are corporations created either for the common benefit of all members, or for the purpose of serving the public at large. Nearly all churches, church clubs, educational, charitable, and social organizations belong to this class, as well as mutual insurance companies, stock exchanges and other similar organizations. There is no capital stock, consequently no stock certificates, but usually certificates of membership are issued to members. The members share equally in all privileges of membership irrespective of the amount that each has invested. The average business man pays little heed to this type of organization, but is concerned with stock corporations.

Stock corporations are created for the purpose of conducting business enterprises. They have capital stock divided into transferable shares. The shares are obtained either by purchase from the corporation, or by transfer from a stockholder. Stock corporations are conducted for profit and the profits are divided and distributed among the stockholders in proportion to the number of shares that each possesses. The control of a corporation lies with the stockholders who act in meetings and by vote.



With few exceptions, each share of stock entitles the owner to a vote in the stockholder's meeting. Hence, those who own or control the majority of the shares control the corporation.

Stock corporations, according to the character of the work that they perform, may be divided into four classes, — industrial, commercial, public service and financial. The first class includes manufacturing and mining companies, and the second, wholesale and retail corporations. The two include the greater number of business corporations. Corporations which control railroads, telegraph and telephone systems, electric light, water, gas and power enterprises, form the third class. Under certain restrictions, these are allowed to exercise the right of eminent domain and frequently are given special and exclusive privileges on the public highways. The last class includes banks, insurance companies, trust companies and other similar institutions handling the funds and investments of the public and with the exception of national banks, which are under federal control, is subject in each state to special statutory legislation and some form of governmental supervision. In all cases of management and control not regulated by special statutes, financial corporations are subject to the general laws governing ordinary stock corporations.

Stock corporations divided into four classes.

Industrial: commercial.

Public service.

Financial.

A corporation is a creature of the law. The power to form a corporation may be given by special statute of the legislature for a particular corporation or by a general act covering

Corporations formed by special statute.

the formation of all corporations. Formerly, the first method prevailed, but the granting of powers to corporations was made a legislative favor, and much abuse resulted. To abolish the abuses, all states have passed general laws governing the formation of corporations.

**By general laws.** The statutes prescribe the conditions upon which a charter may be obtained, and delegate to a state official the work of passing upon each application and granting it if the legislative requirements are fulfilled. These statutes are alike in their general scope, but vary in detail from state to state.

The corporation at the present time is the favorite type of business organization. This is largely due to

**Advantages.** the fact that it possesses many advantages over other types. The corporation continues uninterrupted by the dissatisfaction, the insolvency, the death, or the retirement of its stockholders. The stockholders may change

**Permanence.** from time to time but this does not affect the corporation. A corporation is a separate unit apart from the persons who own it. The death of a stockholder simply means the transfer of stock to some one else. The control is vested in the officers and the death of one simply means finding another to take his place. Charters are granted in some states for only a limited period of years, and on expiration must be renewed or the corporations cease to exist. Sometimes, the period of existence is stipulated in the charter; if so, the corporation comes to an end when the time limit expires. Some states reserve the right to forfeit charters for misuse, non-use, or abuse of

power. Unless there is a time limit by charter or by statute, or unless the right of forfeiture is reserved, the duration of a corporation is perpetual. The existence of a corporation is terminated by four legal methods: by expiration of the time for which the charter is granted; by voluntary dissolution; by insolvency and by forfeiture of the charter for misuse, non-use, or abuse of powers.

**Methods of terminating a charter.**

The liability of stockholders is limited by the amount of money invested for stock in a corporation. The enterprise may prove a failure and incur great indebtedness, yet the stockholders will lose only their investment. This is quite a contrast to a partnership, where a partner, in such a case, would lose not only what he had invested but would be personally liable for all unpaid debts of the partnership. There is also a subscription liability. Subscribers for stock are liable to the corporation for the full par value of the subscribed stock. If subscriptions have not been paid, the corporation or its creditors can force payment for the unpaid part due the company. Again, if a corporation without the consent of its stockholders sells stock at less than par, the creditors can force extra payment to make the stock full paid at par.

**Limitation of liability.**

**Subscription liability.**

There are a few exceptions to the general principles of limited liability, where special liabilities have been granted by statute. Stockholders of national banks, in case of failure, are liable not only for their investment, but for an additional sum equal to the par value of the stock that they own. Many states impose this extra liability, or double liability as it is

**Double liability.**

called, on banking and insurance corporations, while Minnesota and California exact it from all corporations. In New York State, stockholders are liable to employees and servants for all wages due by the corporation.

The limitation of liability has been, in many cases, the chief cause for formation of corporations and in recent years has led many partnerships to become corporations. Every enterprise involves a certain amount of risk. If every individual who bought shares in a corporation were liable to the full extent of his wealth, investment would be checked. It is an easy matter to get a person to buy a few shares in a venture where his liability is limited by his investment. Limited liability has been a boon to industry, and has largely been the cause of the entrepreneur finding ready capital for investment.

The ease with which stock may be transferred from one person to another is a decided advantage of a corporation. It allows the investing of varying amounts and gives a proportionate share in the control and profits of a business enterprise. If a person buys stock, and wishes to dispose of it, he can easily find a buyer. This is a decided advantage over a partnership where a partner frequently has great difficulty in disposing of his interest in an enterprise.

The corporation has greatly stimulated the development of industry through the ease of investment, and the consequent inducement to save and bring into existence new forms of capital. During the eighteenth and the early part of the nineteenth century, the range of investment for

Importance of limited liability.

Transferability of shares.

The drawing of capital from many sources.

the public was almost entirely confined to dealing in governmental obligations. In fact, the early stock exchanges traded only in these forms of securities. The merchants and traders had outlet for their surplus capital in the extension of business and trade, but if an ordinary investor did not care to buy government securities, the only other outlet for investment of his savings was buying and improving real estate. The large amount usually needed for buying government securities or real estate left no form of investment open to the small investor. The corporation, with its transferable shares in small amounts, filled a much needed want and soon won favor with the small investor. It allows the investment of capital in small as well as large amounts. A man with a hundred dollars has an opportunity to invest it and to draw a good rate of interest thereon. On the other hand, transferable shares greatly increase the sources from which corporations both large and small draw their capital. The average corporation draws its capital from many thousands of investors, comprising frequently not only the humble workman, but the wealthy aristocrat. The United States Steel Corporation has upwards of a hundred and twenty thousand shareholders, composing all classes from the ordinary laborer to the millionaire, and scattered not only through all parts of the United States, but also in many foreign countries. Many an entrepreneur incorporates a venture and raises the needed money by selling the stock in small quantities to his relatives and acquaintances.

Early forms of investment.

The corporation allows investments of small amounts.

The control of a corporation rests with its stockholders, who act at regular meetings and by vote. Business can

**Flexibility.** be transacted only by duly appointed officers and each officer has his duties clearly defined.

An inefficient officer may be dismissed, or an entire change of management be made, simply by the process of election at the regular meeting. From the foregoing, it is seen that the advantages of corporation over partnership and single entrepreneurship are great. Where the non-corporate forms of organization have proved

**Corporation popular form of business organization.** dangerous in large enterprises, the corporation, with its limited liability, its ease in transferring stock, and its flexible business administration, has met the demands of the business world and has become the most popular form of business organization.

In contrast with the advantages, certain disadvantages are found. Most states charge fees from a small nominal

**Disadvantages to corporation.** sum to an amount that is almost a tax on industry. The organization fee of the United States Steel Corporation, if it had taken out its charter in Pennsylvania where most of its mills are located,

**Increased expense.** would have been several times greater than its fee for incorporation in New Jersey. Many states have lower fees than New Jersey, but other disadvantages more than offset the lower initial cost. Most states also charge an annual franchise tax or a charge for the privilege of doing business as a corporation. Special taxes are sometimes levied on corporations, as the federal corporation tax, which requires that corporations doing business in the United States pay annually into

the federal treasury one per cent of their net profits over and above five thousand dollars. There are other additional expenses incidental to the making out of reports required of corporations in most states, to the holding of annual meetings of stockholders, etc. These expenses in a large corporation receive little consideration, but with small enterprises they may be of sufficient importance to prevent corporate formation.

A corporation is limited in its business operations to the powers given in its charter, or allowed in statute. Formerly most of the states allowed corporations to conduct only one line of business. **Limited powers.** This often proved a serious drawback and prevented the undertaking of business ventures that would be profitable. The majority of the states have, during recent years, become more liberal in this respect, and little or no restraint is at present placed upon corporate organizations as to the kinds of business enterprise that may be named in the charter and undertaken.

The credit of a corporation depends upon the capital or resources of the business, while in a partnership it is dependent upon the entire wealth of the partners. Many corporations with doubtful business resources find it difficult to obtain credit. **Limitation of credit.** Frequently, the creditors in case a partnership is changed to a corporation are reluctant about extending credit as freely as they had previously done. This disadvantage often proves a handicap in small enterprises, but it is of little consequence with large business undertakings.

Corporations are compelled to make annual or more frequent reports of their business operations and finan-

cial standing to state or federal officers. This gives a certain amount of publicity to business operations. Sometimes business men, in order to avoid this publicity, retain the partnership form of organization.

The advantages of the average corporation greatly outweigh the disadvantages. This accounts for the popularity of the corporate form and the constant change of partnerships into corporations. The corporation is indispensable to our industrial system. The increasing size of the business unit with its greater complexity brings the corporation into greater favor because it is the only form of organization constituted for conducting business undertakings on a large scale.

The charter, the instrument which creates a corporation, is, in form, merely an application for a charter.

The incorporators or their attorney draw the application complying with the provisions of the general incorporating law of the state and present it

with the required fee to the proper state official.

This official, usually the secretary of state, has not the authority to withhold his signature from any instrument properly drawn and complying with the statutory requirements. The filed application immediately becomes the charter of the new corporation, and the incorporators are then fully authorized to perfect

the organization and proceed with its business. A charter is special when a special act of legislature creates the corporation.

It is general when it is formed under a general corporation



act by filing an application for charter with the prescribed public authority. It is a common practice to put in the body of a general charter the important features of the corporation act. The general corporation laws of a state apply to corporations with special charter only so far as the former are consistent with the latter.

The work of incorporating ordinary business corporations is left entirely with the states. The federal government charters national banks, and there are instances of federal charters for railroads doing interstate business. It is possible for the federal government to grant charters for other undertakings. A federal incorporation act would be very advantageous in making uniform the requirements for incorporation, which differ in detail in the various states.

Some charters are brief, while others contain a mass of details. Charters, nevertheless, must contain many essential facts. The name must be given and considerable freedom is allowed in the choice of a corporation name. The chief restriction is the forbidding of the choice of a name like or nearly like that of a corporation already transacting business in the state. Some states compel the corporate name to begin with "The" and end with "Company," while in others, the name must be followed by "Limited" or "Incorporated." The location of the principal office of the corporation must be stated. This does not mean the chief operating office which may be in another state. The purposes or objects of the corporation must be clearly and definitely stated. Ordinary business cor-

**Incorporation either state or federal.**

**Charter essentials.**

**I. Name.**

**II. Location of principal office.**

**III. Purposes or objects of incorporation.**

porations have the greatest freedom in their choice of business ventures; the only restriction is the prohibition of undertaking those enterprises which are allowed to be conducted only by corporations fulfilling special legal requirements. As the corporation can engage only in those business activities mentioned in its charter, the purpose clause should be broad enough to include all enterprises that the corporation may wish to conduct during any future time. The object clause in the charter of the United States Steel Corporation contains eleven paragraphs, each of which is a grant of extensive powers in itself. For fear that some future activities might be prohibited on account of lack of authority, the following is a part of the last paragraph:

“to do anything and all other acts and things, and to exercise any and all other powers which a copartnership or any natural person could do and exercise, and which now or hereafter may be authorized by law.”

The amount of capital stock must be given and can be changed only by an amendment of the charter.

**IV. Amount of capital.** Many states have no limitation upon the amount, but some have a minimum, and

a few a maximum. If the capital stock is of different kinds, not only must the classes into which it is divided be clearly defined, but the rights and privileges enjoyed by each. The number of shares into which the capital stock is divided must be stated, as

**V. Number of shares of stock.** well as the par value of each share. Some states have a minimum, while others have a maximum limitation upon par value. For a business corporation the usual par value is one hundred dollars.

Mining companies frequently issue shares as low as one dollar and shares with a par value of ten dollars are very common.

It is customary to state the duration of a charter, or the term for which a corporation is formed. Some states permit corporations to be incorporated in perpetuity. Others fix a maximum of twenty or fifty years. In the majority of states, while a corporation may be limited in its charter to any period, it is permitted to express its duration as perpetual.

VI. Duration of charter.

When the time specified in the charter or fixed by law expires, the corporation comes to an end and its charter must be renewed or extended, or its business must be closed. A charter must contain the names and post-office addresses of the incorporators.

VII. Names and post-office addresses of incorporators.

Incorporators or parties applying for a charter must be persons legally competent to make a contract, and a certain number must be citizens of the state where the charter is to be granted. Minors, partnerships and corporations cannot be incorporators, yet may hold stock after a corporation comes into existence. The minimum number of incorporators is in most states three, but some have five. Each incorporator must ordinarily subscribe for one or more shares of stock.

Incorporators.

Qualification.

A corporation is domestic in the state where it obtains its charter. In all other states it is foreign, and in foreign countries, alien. The admission of a foreign corporation into a state for the transaction of intra-state business is a matter entirely

Domestic corporation.

within the state's discretion. A state may entirely exclude a foreign corporation or restrict its business to a particular locality, or exact security for the privilege of trading with its citizens, but a state cannot interfere with the inter-state commerce of a foreign corporation. A foreign corporation has no rights except through courtesy or such as may be granted by the legislatures of the states. It must strictly comply with the terms or conditions imposed. All states have passed laws differing in detail, but generally providing that a foreign corporation cannot enter and do business without first obtaining a license. A foreign corporation is usually required to keep a local office with an authorized agent in charge, upon whom legal papers may be served. Frequently, a copy of the charter must be filed with the proper state official. Some states demand the payment of fees based usually upon the amount of capital which the corporation employs in the state.

Incorporation gives to a corporate body all powers properly specified in the charter or expressly stated in the statutes of the state where the charter is obtained. Besides this, other powers, called general or implied, are conferred simply by the act of incorporation, and are enjoyed by all corporations.

**Powers of  
corporation.  
Expressed.**

Implied powers are those which naturally arise from the nature of the business. They are not limited to those powers which are indispensable, but include all which are appropriate and suitable for carrying out the expressed powers of the charter and the statutes. Of the implied powers, the most important

**Implied.**

are that the corporation may sue and be sued, incur debts, enter into contracts, use a seal, buy, sell and hold property, appoint directors, officers and agents, make by-laws, dissolve itself and do all proper things necessary to carry out its business undertakings. Many charters fully state the implied as well as the expressed powers, but the mention of the former is unnecessary, as they are recognized by law as incidental to the carrying out of the purposes of incorporation.

**Charter  
need not  
state im-  
plied  
powers.**

There are certain special powers that, if not mentioned in the charter, the corporation does not possess. The purpose of incorporation is a special power and the corporation is confined to the conducting of those business enterprises mentioned in its charter. In most states, many other powers, if specified, are allowed, as the issue of various kinds of stock, power to hold stock in other corporations, limitation upon the salary paid officers and restrictions upon the power to mortgage the property of the corporation. These powers must be conferred by statute, and then, in order to be enjoyed by a corporation, must be stated in the charter. There are a few instances where statutes have made special powers general and then they are enjoyed by all corporations, such as cumulative voting in California and Illinois.

**Special  
powers.**

**Conferred  
by statute  
and stated  
in charter.**

By-laws are permanent rules for conducting a business undertaking, framed and adopted by the stockholders or their representatives, the directors. A by-law differs from a resolution in that the

**By-laws.**

latter applies to a single act of a corporation, whereas the former is permanent and is applied on all occasions until repealed. It is not only necessary, but very desirable for a corporation to have carefully framed by-laws. They must be confined to the limitations of the charter and must conform to the corporation laws of the state. Strictly speaking, the stockholders alone have the power to enact by-laws, but in many cases, by charter provision, or by vote of the stockholders themselves, this power is delegated to the board of directors.

It is true that stockholders have the charter and corporation laws of the state to guide them, but they do not provide for any of the details of organization, administration and business routine for which by-laws are necessary. By-laws must be carefully drawn, properly adopted and contain provisions for the issue and transfer of stock, the meetings of stockholders and directors, the election of directors and officers and their respective powers and duties, the general care and management of the corporation property, the care of the finances, the payment of dividends and the method of by-law repeal and amendment.

**Requisites.**

The capital stock of a corporation is the amount of its authorized stock. It need not be large, because a large business enterprise, as in the case of the Equitable Life Insurance Company, may be carried on with a small amount of capital stock. For the sake of convenience in estimating the interests of stockholders and in facilitating transfer of ownership, capital stock is divided into equal parts called shares

**Capital stock.**

of stock. A person owning one or more shares of stock is a stockholder. As evidence of ownership, he is entitled to a stock certificate. A certificate signed by the president and secretary or president and treasurer and bearing the corporation seal states the number of shares owned and the special conditions, if any, governing the stock in question. A share of stock gives the owner a voice in the management, an interest in the profits and a proportionate share in the ultimate assets of a corporation. A stockholder has an undivided interest in the business. He is not entitled to any particular part, but owns a proportionate share in all assets combined. Many states allow with proper charter provisions the issuing of stock without voting power. Unless it is allowed by statute and provided for in the charter, every owner of record enjoys the usual voting power and may exercise it in person or by proxy.

Stockholder.

Stock certificate.

Four methods are used in issuing stock. First, stock may be issued on subscription payable in cash.

This is the simplest and safest method of issuing stock. The subscription is usually made in writing and signed, then the future payment may be enforced by law.

Methods of issuing stock.

Secondly, stock may be issued for labor, property, or any valuable consideration other than money.

On subscription.

This method must first be authorized by statute, and care should be taken that whatever is given for stock is not overvalued.

For labor.

Thirdly, stock may be issued as a stock dividend. A certain amount of stock is declared by the directors as a free gift to the holders of the

Stock dividend.

stock. This is possible only when the whole amount of capital stock is not issued, or when it is increased. In every case, the increased issue should be supported by the proper earning power. This practice is prohibited by statute in some states. Lastly, it is a

**Common stock: a bonus.** common practice with industrial corporations to issue common and preferred stock and to give a certain percentage of the common as a bonus to the original buyers of the preferred. There are many instances, especially in the case of railroads and in some public service corporations, where all or part of the stock issued is given as a bonus to the original bondholders.

Capital stock is divided into two general classes, preferred and common, although many corporations issue only the latter. Preferred stock is that which is granted certain specific privileges

**Preferred stock.** by a corporation. It is usually secured by special provisions in the charter, but some states allow it by by-law provision. The preference usually consists in

**Cumulative.** giving a dividend on the preferred stock before any payment is made on the common. The

dividend may be either cumulative or non-cumulative. Dividends on cumulative preferred stock, if not paid in full each year, accumulate from year to year and must be paid before any payment is made on the common stock.

**Non-cumulative.** Non-cumulative preferred stock is where the profits, usually including those accumulated from the past, are insufficient to pay the preferred stock dividends; the unpaid part is lost, it matters not how great the profits are for the years following. Stock



may be preferred as to assets, as well as dividends, or both. There may be grades of preferred, as first preferred, second preferred, third, etc. If profits after payment of the preferred dividends, warrant other dividends, various methods are in practice for their distribution. First, the preferred may share equally with the common as to further dividends. Secondly, the common may receive equal dividends; if the profits warrant further distribution, each share alike. Thirdly, the preferred may receive a fixed dividend and the common a fixed dividend; further distribution, all go to the preferred. Lastly, the customary arrangement is for the preferred to get a fixed dividend and no more and all extra profits to go to the common stock.

**Distribution  
of profits.**

Common stock is that which does not possess any special privileges or restrictions. If privileges are granted, or restrictions placed on a portion of the stock, such is no longer common stock, and only what remains is so classed. In many corporations, all of the stock is common and each share possesses equal rights in the earnings and assets. The ordinary practice in industrials is to have preferred and common, the preferred representing the tangible assets and the common the intangible, as trade-marks, good will, patent, franchises, and economies resulting from producing on a large scale.

**Common  
stock.**

## QUESTIONS

1. What are the chief objections to single entrepreneurship as a form of business enterprise?
2. Why is the joint stock company not a favorite type of business organization?
3. What essential facts should the articles of copartnership contain?
4. What is meant by saying that a corporation is a separate entity?
5. State and explain the advantages and disadvantages of partnerships and corporations.
6. Name the different kinds of stock corporations, and give the characteristics of each.
7. What is the difference between (a) partnership and corporation, (b) public and private corporations, (c) non-stock and stock corporations, (d) domestic and foreign corporations?
8. Why has the corporation become the popular type of business organization?
9. What are the different forms of business liability?
10. What is a charter and how is it granted?
11. What essential facts should a charter contain?
12. What are the limitations placed upon a foreign corporation doing business in a state?
13. Name and explain the powers of a corporation.
14. What should the by-laws contain?
15. What is preferred stock? What is the difference between cumulative and non-cumulative preferred stock?

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## CHAPTER III

### INTERIOR ORGANIZATION

THE management of a business corporation is in the hands of a board of directors elected annually by the stockholders from their own number. The details of management are usually assigned to officers chosen by the directors. The directors are the agents of a corporation and as such are responsible for the corporate care of its property, and for its proper management. If the annual meeting of stockholders is not held, or if the election of directors does not take place, the old board remains with all its powers until successors are elected. Many states fix the minimum number of the board at three, others at five members, but usually there is no maximum limit.

Directors, acting as agents of a corporation, must manage it as carefully as a business man conducts his business. They are held liable for acts which themselves are wrong or fraudulent, such as causing loss to a company through neglect or wrongdoing on their part, issuing stock as fully paid when it is not, allowing dividends to be paid out of capital, or performing any act forbidden by the statutes of a state. In addition to these liabilities, special laws have been passed by many states making directors liable criminally as well

as civilly for certain acts, as making false reports, loans to stockholders out of funds of the corporation, etc. But so long as directors keep within the law and exercise care in management, no liability attaches to them in the discharge of their duties.

The by-laws fix the number of directors, their qualifications, method of election, term of office, method of filling vacancies, meetings, and compensation for services. For the average corporation, a small board is more efficient than a large one. States usually require directors to be stockholders, and at least one or more resident of the state of incorporation. **Qualifications.**

In such cases, when a director ceases to be a stockholder, he vacates his office. Some states allow the stock-owning requirement to be set aside by provision in the charter or by-laws. As to other requirements, the general rule is that a person legally qualified to make a contract may be elected a director.

When once elected, a director unless he is disqualified by his acts, is entitled to hold office until the expiration of his term, and cannot be removed by stockholders, directors, or court. An exception is made in one or two states, where stockholders have the power to remove directors at any time. A single director has no power to contract or do business for the corporation. **Directors must act as a body.** Directors can contract and act only as a board duly notified and assembled. A majority must be present, and a majority of that majority acts and binds a corporation. A board of directors may delegate to an agent power to make a contract or do business, and this agent may be a director or a third party. The

board of directors has supreme power in management, and all acts and contracts which the corporation enters into must be by or through it.

Sometimes, one or two men wish to get control of a board of directors, which they do, through the creation of dummy directors. A dummy director is one who follows the bidding of some other person, or votes as he is told. He may be a stockholder, and outside interests are depended upon to make him vote as desired, or he may be an outsider and one or more shares of stock are given him so that he qualifies for office. In the latter case, if any doubt exists about his voting, he is compelled to return to the donor the indorsed stock certificate, which represents the stock which has been given or transferred to his name. Any time he fails to obey orders, the actual owner has the stock transferred again to his own name, and the director, not being qualified, loses his office. A stockholder who controls a majority of shares may through dummy directors direct and control a corporation and yet not be a director.

Under the ordinary system of voting, parties controlling 51 per cent of stock elect the board of directors. The minority interests, not having a representative on the board, very frequently have their rights imposed upon, and have just ground for complaint. To give the minority interests protection, and make it possible, if their holdings are of any size, to elect one or more representatives on the board, a cumulative system of voting was introduced. Under the ordinary system, if a stockholder owns ten shares of

stock and there are ten directors to be elected, he casts ten votes for each director, and if all his votes are to be cast, he is forced to give ten to each of the ten candidates. Under the cumulative system, each share has a vote for each director, but the stockholder may vote for each or cast all his votes for one. If a stockholder has ten votes, and there are ten directors to be elected, he may cast his hundred votes for one director, or distribute them among the ten. With any showing of strength, the minority very seldom fails to elect one or more of their number and instances are known where the majority, by scattering their votes, lost entire control of a board. Cumulative voting is used only in the election of directors. It is allowed in a large majority of states, and some have gone so far as to compel its use, declaring it to be the only proper system for the election of directors.

Ordinary  
system vs.  
cumulative.

Advantage.

The individual stockholder has few rights and few duties to perform. He receives notice of, and has a right to attend all stockholders' meetings in person or by proxy, and to cast votes for his stock. Stockholders assembled together in corporate meetings have power to elect directors, make by-laws, unless this power is delegated to directors, provide for increase or decrease in capital stock, authorize amendment to charter, give their assent in certain states to the sale or mortgaging of the company's property, and sanction the dissolution of the corporation. The board of directors for whom a majority of votes is cast at the annual meeting has active control of an enterprise and the stock-

Powers of  
stock-  
holders.

holders have little to do until the next annual meeting. A stockholder has the right to inspect the accounts of a corporation, but the courts and the legislatures have placed various restrictions upon this right.

The chief officers of a corporation are the president, secretary, and treasurer. Two of the offices may be held by the same person. In large corporations, the number is increased by one or more vice-presidents, assistant secretaries, assistant treasurers, a general manager, auditor, general counsel, and a chairman of the board of directors. The chairman and the president are always members of the board, but the others may or may not be directors. The officers are usually chosen by the board, but a few states permit them to be elected by the stockholders. The by-laws usually name the different officers, their mode of appointment, and clearly define the duties of each.

Some large corporations have a chairman of the board of directors, who presides at all their meetings. He is usually a former president and continues to perform a few of his old duties. The chief executive is the president. He presides at all meetings of stockholders, and, if there is not a chairman of the board, at meetings of directors. His office alone does not give him any power to buy, sell, or contract for the corporation, nor control its private funds or management. What power he possesses must be specified by the by-laws or resolutions of the board. The board usually authorizes him to sign all stock certificates, deeds, and other important instruments. The president binds a corporation by his

**Officers of  
a corpora-  
tion.**

**Chairman  
of board of  
directors.**

**President.**

**Duties.**



acts or contracts when he is expressly authorized to act or contract, when he is permitted by a corporation for some time to act or contract for it, and when a corporation ratifies or accepts the benefits of a contract after it is made. He makes an annual report to the board and presents the same at the annual meeting of the stockholders.

**Powers.**

A vice-president is often appointed to assist the president in the performance of his duties. He takes the place of the president in case of his absence, disability, or refusal to act. The office of vice-president does not in itself carry any powers. The duties and powers must be clearly specified and authorized by by-laws or resolutions of the board.

**Vice-President.**

**Duties.**

If a corporation's business requires it, more than one vice-president may be appointed. Certain executive duties are assigned to each, and, in the absence of the president, they in order of precedence perform his duties.

**Powers.**

The secretary is an important officer of a corporation, and many states by statute require the appointment of such an official, and specify his more important duties. Among his many and varied duties may be mentioned the following: He must keep the minutes of the meetings of the board

**Secretary.**

**Duties.**

of directors and the stockholders, serve all notices for the corporation, sign and countersign all contracts authorized by the board of directors or finance committee and affix thereto the corporate seal, keep a record of stock and stockholders, and keep all instruments and records that are not assigned to other officials. He is a mere

servant and has to do as he is told. He has no authority to represent the corporation, but the board may expressly authorize him to contract for it, and may accept or ratify his contracts after they are made. In large companies, the secretary has one or more assistants, whose duties are defined in the by-laws or determined by order of the board.

The treasurer is the custodian of all funds and securities of a corporation. It is customary for him to

**Treasurer.** give a bond for the faithful discharge of his duties. The amount of the bond, and the

securities that will be accepted, are usually stated in the by-laws. The treasurer not only keeps his own books,

**Duties.** but ordinarily has charge of the bookkeeping of the company. He, like the secretary, has

no power to represent the corporation, and what powers

**Powers.** he possesses must be expressly delegated to him. He is usually authorized to sign all

checks (but these are in large corporations counter-signed by the president or some official assigned for the purpose) and indorse all negotiable instruments.

Like the secretary, he may have one or more assistant treasurers, to assist him in his work.

The president in a small corporation is usually delegated all managerial powers, and personally directs and super-

**General manager.** vises the business enterprise. In large corporations, the managerial duties are so numerous and important, that it is the custom to appoint

a general manager to assist in these. The

**Duties.** by-laws usually provide for this official, as well as define his powers, duties, term of office, and

compensation, but if such is not done, the board of directors possesses the power to do so.

With the increase in the size of the business unit and the growing complexity of business organization, the problem of the systematic keeping of accounts

**Auditor.**

is an important one. It introduced in the industrial field a new official, the auditor. To-day, with our large business undertakings, this official is indispensable, and an absolute necessity. His duties

**Duties.**

are to supervise and take charge of the whole system of corporation accounts, and he frequently has under him a large clerical force. As in the case of the general manager, if the by-laws do not provide for the office, the board of directors may do so.

The counsel is the legal adviser of a corporation.

He has no authority to act except as expressly given in the by-laws or by the board of direc-

**Counsel.**

tors. His duties consist in giving legal advice whenever necessary, drawing all contracts and important instruments, and representing the company in case of litigation.

**Duties.**

Dividends are profits declared and ordered by the directors to be paid to shareholders on demand at a fixed time. The directors alone have the

**Dividends.**

power to declare dividends from the earnings of a corporation and fix the amount, time, and manner of payment. Until a dividend is declared, profits belong to the corporation and are liable for corporation indebtedness. Stockholders have

**Stockholders no definite right to profits.**

no definite rights, but only potential rights, to share in the net profits of a corporation according

to their respective interests, but where the stockholders are notified that a dividend has been declared, an amount sufficient to pay it is, in the eyes of the law, separated from the assets and held by the company in trust for the stockholders. When dividends have been properly declared out of the net profits and time comes for payment, there is a debt due by the corporation to the stockholders and can be collected by due process of law.

The directors determine whether or not a dividend is to be declared. When they refuse to do so, the stockholders must prove to a court of equity, that **Granting of dividends.** there is a clear abuse of power before it will interfere, and compel the directors to declare and pay a dividend. The directors may in fair exercise of their discretion invest profits to extend and develop a business. They may set profits aside to pay indebtedness, that is not due until some time in the future. Dividends must be paid out of net earnings. If all stockholders assent, it is legal to distribute part or even all of the profits in salaries.

Capital is a very important factor in all business enterprises. Without large amounts of it, the business world would be severely handicapped. The ability to get an unlimited amount of capital for investment has made the United States the greatest industrial country in the world. A corporation possesses the advantage of being able to draw its funds through the sale of stocks and bonds from all classes of people. A share of stock represents a proportionate part of assets, while a bond

**A corporation draws its funds from all classes of people.**

is a limited interest in a corporation. A stockholder is a part owner of a corporation, but a bondholder is a secured creditor. Stockholders, or their representatives, the directors, have absolute control of a business enterprise, while bondholders, as long as they are paid their interest and principal at maturity, have not the slightest say in the management.

Stockholder  
vs.  
Bondholder.

An ordinary bond is an interest-bearing promise to pay a definite sum of money on some date in the future. There are a great many varieties of bonds, but the simplest, and the one ordinarily used, is the mortgage bond. This bond is secured by a mortgage upon the real or personal property of a corporation. A corporation mortgage is similar to one made by an individual. When a corporation wishes to raise a large sum of money, it often finds it advisable to divide the whole amount into parts, and offer these to the public. This gives the small investor an opportunity to invest his savings, and at the same time gives the corporation a large field from which to draw its funds. In the mortgage bond, a mortgage deed of trust is usually given to a trust company to secure the bonds issued by the corporation. The trust company acts as trustee, collects the interest and principal at maturity, and pays the same to the bondholders. If the corporation fails to pay the interest or principal, the trust company takes possession of the property, and disposes of it for cash to pay off the bonds. There may be first, second, third, or further mortgage bonds, according to priority of the lien. A second type of bond

Bonds,  
many  
varieties.

Mortgage.

Income.

is income. In this case, the interest is only paid when interest charges are earned. The principal is usually secured by a mortgage. A third type is convertible bond, or where it is possible to convert bonds into stock. A fourth type is collateral trust bond. A corporation holding many corporate securities desires to raise money, but at the same time does not wish to mortgage its own property. Securities, covered by a deed of trust, are placed in the hands of a trustee, and upon them as collateral security a new issue of bonds is made, called collateral trust bonds. A fifth type is debenture bond. A debenture bond is one not secured by a lien on any specific property. In case of insolvency, a debenture bondholder is an ordinary creditor of a corporation. These are the chief kinds of bonds, yet with railroads many others are found.

The directors have a right to mortgage the property of a corporation unless forbidden by statute or by-laws.

It is customary to insert in the by-laws, restrictions upon the board of directors, to sell bonds or incur debts. Ordinarily, a debt cannot be incurred beyond a limited amount unless sanctioned by a two-thirds majority of the board or by a majority of the stockholders. In mortgaging corporation property, the shareholders should always give their assent, and many states have this requirement on their statute books.

A bondholder is solely interested in the security of his principal and the regular payment of his interest. These fundamental rights are partly fixed by statute, and partly by contract be-

**Convertible.**

**Collateral trust.**

**Debenture.**

**Right to incur indebtedness.**

**Rights of bondholders.**

tween stockholder and bondholder. In the simple mortgage bond, all bondholders enjoy equal privileges, but in a corporation issuing different kinds of bonds, each of which possesses different rights and privileges, the rights of a bondholder depend upon the kind of bond he owns. A bondholder has no privileges as long as his interest and principal are promptly paid, but in default of payment of both or either, he possesses certain privileges for the protection of his property. He may sue for what is owing him, force the trustee to foreclose the mortgage on the corporation property, or ask a court of equity to appoint a receiver to take charge of the property. If a corporation cannot meet its obligations, settlement has to be obtained by action of law, so the bondholders usually ask for the appointment of a receiver.

Dependent  
upon kind  
of bond  
owned.

Some define capitalization as the total amount of stock and bonds issued by a corporation, but in its strictly legal meaning, it comprises only the former. People have had, from time to time, different views as to the proper basis of capitalization. Formerly, it was universally accepted that the capitalization should not exceed the amount of actual money invested in a corporation. Gradually, people saw the error of this, and to-day a different basis is accepted as the proper one. Capitalization should not be greater than the average net earnings extending over a sufficient term of years to include unusual gains and losses, capitalized at the current rate of interest. If the average net earnings, for instance, for ten years are \$300,000 a year,

Capitaliza-  
tion.

Basis.

Proper  
capitaliza-  
tion.

and the rate of interest on investment involving similar risks is 6 per cent, then the capitalization of the corporation should be a sum that will give \$300,000 at 6 per cent, or \$5,000,000. If the company is capitalized for more than this, it is overcapitalized; if for less, undercapitalized. A company is overcapitalized, or contains watered stock, when it has not the proper net earning power for the full amount of capital stock. Thus a company may be overcapitalized at one time, and after a few years of successful business become properly capitalized. The United States Steel Corporation was for years greatly overcapitalized, but a long period of prosperity placed the stock on a proper earning-power basis.

In the formation of a new corporation, the promoter should be very conservative in fixing the amount of capital stock. In estimating the probable net earning power, the promoter should, if the corporation be a new venture, find the average net earnings of a corporation of like nature, or if it be a combination, find the total average net earnings of the different companies combining, and to this sum add the estimated increased earning power coming from whatever increased advantages the new corporation possesses. This amount should be capitalized at the rate current for similar risks and form a basis for the new capitalization. Promoters are always prone to inflate their figures, and as a result, the large majority of new corporations are overcapitalized.

**Overcapitalization, or watered stock.**

**Proper means to obtain basis for new capitalization.**

The great increase of capital, and the development



of the corporation type of organization, has made the promoting of new enterprises, an important and profitable form of business. The man who organizes a new enterprise and sets it going is called a **Promoter.** The enterprise may be any type of organization, but as the corporation offers the greatest opportunities, promotion is chiefly confined to it. The task of a promoter is by no means an easy one. His **His work.** work, beginning with the possession of an idea, and extending to the establishment of an undertaking, equipped and ready for business, requires a lot of physical effort, the expenditure of large sums of money, and the exercise of many kinds of ability. A promoter, in the launching of a new enterprise, has three separate tasks to perform. He must discover the business opportunity, assemble it, and raise the money **Discover business opportunity.** required for its establishment. The discovery of a business opportunity is far more than merely finding it. It means the most searching investigation into every phase of an opportunity and careful consideration of all conditions that might arise in its development. Hundreds of business opportunities at first sight seem excellent, but careful investigation proves that they are not worth further consideration. The task of deciding, what opportunities will ultimately prove successful, is one of the most important functions of the promoter. It may be necessary to have the services of a score of specialists in different lines, and the investigation may cover several months.

If a promoter, after thorough investigation, is satisfied that a proposition is worth development, he pro-

ceeds to get temporary control of it. This is called assembling the proposition. If the proposition is the improvement of a piece of real estate, the promoter gets an option on the land. If it is the development of an invention, he gets an option on the invention, or makes an agreement with the inventor on a royalty basis. If it is the consolidation of many industrial plants, he gets an option on each plant. But, in the latter case, it is sometimes necessary to make an agreement with the owners of the different classes of securities involved. Unless, a promoter can get control of his proposition, either through sale or agreement, it is folly for him to proceed with its development.

Suppose, that a promoter has succeeded in assembling his proposition, he must now obtain the money necessary to take up his option, develop his proposition, and start his business undertaking. A company is incorporated with a certain capitalization, the amount of which depends upon its size and the expectations of the promoter. Stock must be sold and funds raised. In doing so, a promoter may adopt one or both of two methods. The stock may

be extensively advertised, and sold through agents or otherwise to the investing public, or a banker may be sought who will buy a certain amount of the stock at a fixed price. If the latter method is used, the banker is called an underwriter, and expects to dispose of the stock to the investing public at a profit. With the establishment of the enterprise, the work of a promoter ends, and the stockholders take over the management.

**Assemble  
the propo-  
sition.**

**Finance the  
proposition.**

**Methods  
of raising  
money.**

The greatest activities of promoters have been in the organization of industrial enterprises. It is customary in industrial corporations to issue both com- **Promoter's** mon and preferred stock. A promoter is usu- **pay.** ally paid in common stock, though other methods of payment are found. In the promotion of the American Smelting and Refining Company, the subscribers received for each hundred dollars paid in cash, one hundred dollars in preferred stock and seventy dollars in common stock, while the promoters were given the remaining thirty dollars in common stock, out of which **Usually** to pay all expenses of organization and reward **in common** themselves for their work. This is a liberal **stock.** remuneration, as usually, the amount of common stock received is not more than 10 per cent. Rarely, is a promoter paid in money. Sometimes, as in the case of Judge W. H. Moore, in the organization of the American Tin Plate Company, the promoter buys for cash all combining plants, organizes a company with a certain capitalization, disposes of the stock to the best possible advantage, receiving the difference between what he paid and what he received, in payment for his services.

A holding company is, as the name implies, organized for the purpose of holding stock and sometimes other securities in corporations. The purpose is to **Holding** secure control of the majority of the stock of **company.** certain corporations, so as to elect the different boards of directors, and thereby control the manage- **Purpose.** ment. The stock of the constituent companies may be obtained by exchange for that of the holding company, or shares of the latter may be sold

and the money used to purchase stock in the former. The holding company is the instrument used in forming many of our large industrial and railroad combinations.

The holding of stock in one company by another is not permissible according to the general principles of

**Right must be expressly given by statute law.** corporation law, and is not allowed unless the right is expressly given by statute. Some states, like New Jersey, have passed laws allowing domestic corporations to hold and sell stock of domestic and foreign companies, while others allow the practice, when it is provided for, in the charter. This and other privileges conferred by the New Jersey statutes account for the incorporation in that state of such a large number of corporations.

Insolvency arises when a business enterprise is not able to meet its obligations. The total assets of an

**Insolvency.** enterprise may be greater than its obligations, but as the latter are payable in cash, it matters not how great the unsalable assets are. The chief consideration is ready cash to meet obligations. Insolvency arises from many causes, the most

**Causes.** important are, — lack of capital, incompetence, specific conditions, fraud, inexperience, and neglect. Two chief methods are in practice for dealing with insolvency, — bankruptcy and receivership.

**Methods of dealing with insolvency.** The constitution gives Congress the sole jurisdiction over bankruptcy, and that body in 1898 passed the National Bankruptcy Act, outlining a uniform bankruptcy procedure for the whole country. Individuals or partnerships may ask a federal court to adjudge them bankrupts in order to

have a discharge from their obligations. Creditors whose claims are unsatisfied may demand, **Bankruptcy.** that a concern be adjudged a bankrupt, the business closed, and the assets distributed among them. The former is known as voluntary, **Voluntary.** and the latter as involuntary bankruptcy. **Involuntary.**

The National Bankruptcy Act is somewhat strict with corporations. No corporation can be adjudged a voluntary bankrupt, but all corporations engaged in manufacturing, mining, trading, publishing, printing, or mercantile pursuits, having debts amounting to one thousand dollars or more, may be adjudged involuntary bankrupts. **Corporations not voluntary bankrupts.** All other corporations including banks, trust companies, and railroads, cannot become bankrupts.

The second method is to petition a court of equity for protection of property and supervision of the business until a settlement of affairs can be obtained. If the judge suspects no fraud, the petition is granted, and an official, called the receiver, is appointed to take charge of the business, until he is discharged by the court. **Receiver-ship.** The court in the order of appointment usually defines the powers of the receiver. The receiver at once takes possession of the property of the business enterprise, in trust **Receiver.** for the creditors, and other interested parties. The receivership may have for its object either the winding up of the business, and final distribution of assets, or tiding the business over a period of financial embarrassment. **Purposes of receiver-ship.** In the first case, the receiver is empowered by the court to convert the assets

into cash, collect all debts due the enterprise, by due process of law if necessary, and use the money obtained to settle, so far as it will go, the claims of the creditors. Secondly, if the embarrassed business enterprise is one with a large amount of capital invested in concrete form, as a manufacturing plant or railroad, the purpose of the receivership is not liquidation and the winding up of the business, but a temporary supervision and operation of the enterprise. The receiver is appointed by the court to continue operation of the

**Powers of receiver.**

business. He is subject in all things to the direction and control of the court, whose officer he is, and when in doubt about his duty, he should appeal to the court for specific instructions. The court is the

**Receiver, agent of the court.**

employer, and the receiver simply its agent. The receiver has no right to incur any liability or in any way hazard the funds in his custody without consent of the court. He has, nevertheless, power to conduct the business in an efficient manner,

**His duties.**

and pay ordinary expenses necessary for that purpose. But he cannot hire extra employees, buy equipment or machinery, or incur extra expenses without the court's permission. His duty is simply to observe good faith in all his transactions, and to exercise reasonable diligence and care in the management of his trust. For violation of his duty, the statutes generally provide that he is not

**Causes for removal.**

only personally responsible, but may be dismissed from office. Many states in their statutes give causes for which a receiver may be removed, as for example, mismanagement, refusal to comply

with the requirements of law, insolvency, refusal to give bonds, incompetency on account of lunacy, and drunkenness. Frequently a receiver is able to put an insolvent corporation on a sound financial basis, and in a position to meet further obligations. Then the court, on receiving a proper accounting, discharges him and returns the management of the corporation to the stockholders. At other times, the creditors, realizing that they cannot get payment in cash, come to an understanding, and reorganization follows.

Reorganization is the readjustment of the affairs and securities of a corporation on a new basis, and the formation of a new corporation to continue the old business. Before reorganization, a corporation usually passes through a period of receivership. A committee is chosen to get the amount and character of the company's obligations, and to formulate a plan for reorganization. Sometimes the members are chosen by bondholders, and sometimes leading bondholders appoint themselves, but they are usually of such a character, that they get the support of their fellow bondholders. After considerable delay, the organization committee produces a plan, and the bondholders are offered the choice between a contest conducted at great disadvantage and expense, or the acceptance of such terms as may be offered. Whenever agreement is reached, the purpose of the receivership is accomplished. The reorganization committee describes what is to be done with the bondholders and stockholders. The senior bondholders are usually given new bonds for full amount in the new

His discharge.

Reorganization.

Preliminary procedure.

Organization committee.

corporation, or bonds for part and preferred stock for part. Various methods are employed in dealing with the junior bondholders. They may be given preferred stock for their securities, junior bonds, or part in bonds and part in preferred stock. The preferred stockholders may be given a lesser amount of stock in the new corporation or an equal amount, but in either case, they are usually taxed an assessment in order to raise funds. The common stockholders may lose their stock altogether, may be given a lesser or equal amount in the new corporation, but if given stock at all, an assessment is levied. Cash must be raised to pay the floating debt and provide working capital. The usual method is to levy assessments upon the stockholders. Frequently assessments are also levied upon the junior bondholders. The heaviest assessments are made upon the common stockholders, and the lightest upon the junior bondholders. If the stockholders refuse to pay the assessment, they lose their equity in the corporation. The common stockholders frequently prefer to lose their stock rather than pay the high assessments.

To reduce the fixed charges below earnings, the common practice is to give the old bondholders part of the amount of the old bonds in new bonds and part in stock. Sometimes the amount of the new bonds and stock equals the old securities, but frequently there is a bonus in stock. Again, old bonds may be converted into new bonds, bringing a lower rate of interest, the reduction of course varying



with the relative strength of the various claims. Reorganization is effected only by the unanimous consent of the bondholders. Even though nearly all of the bondholders assent, reorganization without foreclosure does not bind those bondholders who refuse to give their consent.

Reorganization needs unanimous consent of bondholders.

When a company is foreclosed and sold, its purchaser gets the property free from all claims of unsecured creditors, and the contracts and liabilities of the old company. The buyer is free of all debts except the lien subject to which he buys. Bondholders frequently seek foreclosure, and then buy and reorganize. Although the new company is by statute given all the property rights and privileges of the old, it is a new corporation.

Foreclosure.

## QUESTIONS

1. What are dividends, by whom declared, rights of stockholders to and redress if not declared?
2. State powers and rights of stockholders.
3. Give qualifications, powers and duties of directors.
4. What important rôle do dummy directors play in the business world?
5. What are the powers and duties of the chief corporation officers?
6. Name and explain the different kinds of bonds.
7. What is the proper basis of capitalization?
8. What is watered stock and how is its presence determined?
9. What is the function of the promoter in our industrial system?
10. Outline the steps necessary in promoting a corporation.

11. In what way does an underwriter assist corporation formation?

12. What is the rôle played by holding companies in corporation control?

13. What restrictions does the National Bankruptcy Law place upon corporations?

14. What is the significance of the fact that a receiver is the agent of the court?

15. Outline a plan for the reorganization of a company in financial difficulties.

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## CHAPTER IV

### PRINCIPLES OF MANAGEMENT

THROUGH the development of machinery and the use of large sums of capital, modern business has developed during the last few years at great strides. Business is too big, interests are too varied, for one man to carry on an enterprise under the old method. The corporation gradually evolved as the form suitable to conducting business on a large scale. It signifies the resources, the brains, and the work of many men merged for one purpose in a business unit. The one factor which has made the large corporation possible is organization.

Organiza-  
tion, the  
one fact,  
which has  
made cor-  
poration  
possible.

Organization is the arranging or putting together of mutually connected and dependent parts into a systematic whole so that they will work together with the least possible friction and the greatest harmony. See what organization means to the human body whose organs are mutually dependent upon one another, each one of which is distinct in itself, but cannot act without reference to some other. The hand does not stop nor the foot falter in its task; each does its work in perfect harmony with all other members of the body. The history of life on earth is simply a growth of a more perfect organization, starting with the simple-celled amoeba

Organiza-  
tion: its  
meaning.

Necessary  
to human  
life.

and reaching perfection in man. Organization is not confined to living organisms. It imparts stability and definiteness to the social group, and without it, the state could not exist. The United States as a nation is a complex type of political organization. The nation is best served, and the organization approaches perfection, when all parts of the political unit work effectively, and harmoniously for the common good of the nation as a whole. Organization is the basic foundation, not only of living organisms, but also of the various forms of organized society.

Organization is equally necessary in business. The two chief essentials in every business are capital and organization, but the latter is the more important. Andrew Carnegie once said: "Take away all our factories, our trades, our avenues of transportation, our money, but leave me our organization, and in four years, I will have reëstablished myself." Every business should have an organization, because without it, industrial and commercial development would be impossible. Business organization is the organizing of the constituent parts of an enterprise into one systematic whole, and is successful when all work effectively and harmoniously for the welfare of the business enterprise.

Organization consists of men; it is a collection of individuals. The object is to unite individuals into a body working toward a common end. The men should work together for the welfare of the business, even though each member has his own ideas and desires. One aim is to abolish antagonism be-

tween employer and employee, or between superintendent and workman, and to make all feel that they have a common interest in the success of the business. A second aim is to bring about a systematic connection between the constituent parts, and coöperate all in working toward the interests of the whole.

**Aims of  
organiza-  
tion.**

Certain general principles underlie organization, but fixed rules cannot be laid down for the formation and development of an organization. Each business has peculiar conditions of its own. These should be carefully studied and due allowance made for them. An organization that would be a success under one set of circumstances, would be a failure under another.

All human beings possess physical, moral and mental qualities. These are necessary to a greater or lesser degree in all classes of work. With unskilled labor, and positions of lesser importance, the physical is the most important; with the skilled trades, and positions of increasing responsibility, the mental grows in importance, while with all kinds of work, the moral is absolutely essential. It matters not how healthy a man is, or what ability he has, if he is dissipated, he is physically and morally unfit to be a member of a high-grade organization. Dissipation gradually affects his physical and mental powers, weakens his sense of responsibility, increases irregularity in attendance and carelessness in work. The dissipated employee soon becomes a derelict upon the organization rather than an integral part of it, and his services must soon be dispensed with in order to avoid friction and loss. The

**Physical,  
moral and  
mental  
qualities.**

**Moral  
quality  
necessary.**

**Effects of  
dissipation.**

members of a high-grade organization should be healthy, strong and vigorous, possess required ability for the work, and have a high sense of moral duty.

From the beginning of a business, and as long as it exists, emphasis should be placed upon the selection and combinations of individuals who constitute the organization. Great care and skill should not only be taken in the proper selection of men for the different places, but also in their proper adjustment into groups which combine to form the organization. The coöperation of the different independent groups into one united harmonious whole is not an easy task, and is a test of the ability of an entrepreneur. In accomplishing coöperation, the selection of the proper superintendents and bosses plays an important rôle. A rough, surly boss may be the cause of much friction and lack of harmony.

The duties of bosses and men should be clearly defined, and known to all, so that no friction arises through misunderstanding in giving and obeying orders. Each individual connected with an organization should be placed where his services will best aid the business as a whole, and be allowed to do his work without interference from others, and at the same time, each should have his interest centered in the welfare of the business, and bring to it his best ability and judgment. The strength of an organization lies in the fact, that each part of the business is under the control of a man particularly qualified to handle it in the best possible manner, and his responsibility is definitely fixed and limited to the proper performance

**Importance  
of proper  
selection  
of bosses  
and work-  
men.**

**Responsi-  
bility  
clearly  
defined.**

of his part of the work. The coöperation of men and their enthusiasm in work cannot be obtained unless the management inspires confidence by the assurance of a proper reward for services, proper place, tools, and treatment while at work, and a certain degree of permanency in work. An organization to be successful should have at its head a strong resourceful leader, a carefully selected, well-trained and enthusiastic staff, a close contact with the men, bringing with it close coöperation and sympathy between the management and employees in general.

**Elements  
necessary  
for success  
in organi-  
zation.**

From the past, successful business men learned that their success was due largely to their efficient and enthusiastic working forces. This emphasizes the importance of a high-grade organization, and to-day it is considered one of the most valuable assets of a business. Attention is drawn to the study of the essentials of organization, and the result is a complete change of attitude of employers toward employees. Successful industrial development has in the past been concerned with the acquirement of highly efficient buildings, machinery, tools, and their efficient management, but to-day it is the employee who is receiving attention. The realization by employers that the human element is the most important part of a successful business results in better treatment, working conditions, pay, and a better understanding between employer and employee. An organization to be effective should look after and take care of the men who compose it, because their development means greater success to a business. The employee is

**Importance  
of the  
human  
element in  
business.**

no longer hired to purely fill a definite position that precludes advancement, but he is hired, because of his possibilities for advancement. The importance of a high-grade organization, with its harmony, coöperation and enthusiasm working toward greater efficiency, is recognized by all business men, and many are attracted to the study of methods of acquirement.

One of the essentials of success in organization is the application of system in handling men and affairs.

**System.** Organization consists of individuals; system consists of ways and means. System, as applied to business, consists of rules and regulations, which are worked out and adopted as governing the actions of the members of an organization.

**Its meaning.** The general principles underlying system are simply the reduction of methods employed by successful entrepreneurs to rules. No man can accomplish much without

**Vital necessity in business.** system. It is a vital necessity in our modern business life, as every enterprise, whether large or small, must have some organized method of transacting business, which is system, but it may not be called such. Everywhere in the industrial and commercial world, a consistent application of

**Basic structure of organization.** clearly defined rules of organization and methods are effective in bringing better results. System is the basic structure of organization, whereas organization is the essential and fundamental foundation of business.

Alexander Hamilton once said: "A government must be fitted to a nation much as a coat to an individual, and, consequently, what may be good at Philadelphia may



be bad at Paris and ridiculed at St. Petersburg." So a system, which is effective in one enterprise, may work indifferently in another, and be a complete failure in a third. No system fits all cases. Methods and systems should vary with conditions. Many failures have resulted from trying to force a cut-and-dried system on an enterprise, the only reason being that it has succeeded in another, but the fact that it worked under different conditions was overlooked. A workable system is evolved from within an organization, not brought in from the outside. The professional systematizer usually installs a more or less stereotyped system, without due consideration to the actual conditions existing in an enterprise. His system invariably proves unworkable and blame is attached to the system, whereas the fault was in the introduction of impracticable rules and methods. The right thing used in the wrong place rarely succeeds. Each particular business has its own features which should determine the system that is to secure results.

Methods and systems vary with conditions.

A workable system is evolved from the factory.

The proper method of introducing a system is to have a careful study made by one whose knowledge of conditions as they exist, constitutes him as most competent to know the situation and deduce proper rules, regulations, and methods of procedure.

Proper method of installation.

With care in the selection of simple forms, easy of analysis, giving sufficient details, but eliminating unnecessary data, a system will be evolved which will be successful and prove a valuable asset to a business. But it must not be forgotten that no system can of itself run a busi-

ness smoothly and efficiently. System is a good servant, but a bad master and should be used only as a tool in the hands of a business man. A system when once installed should not be made the object of careless experimentation and subject to sudden changes. By such tactics, the best system would soon be destroyed, and lose its purpose and efficiency. This does not mean that rules and regulations laid down by a system should not be changed to meet new conditions. Careful investigation should be made by men competent to analyze conditions, and only on their recommendation should changes be introduced, and in no case, until the most searching and thorough investigation has been made. It is wrong to consider the rules and regulations of system as rigid. Every progressive business is continually growing and so may soon outgrow its system. A good system should be flexible and subject to change to meet new conditions. A system must grow with a business and be made suitable for the new conditions introduced through development and improvement.

“Red tape” or too much system usually arises from too great complexity in a system. An elaborate, complex system causes confusion through failure to understand its workings. A great variety of forms is frequently used to collect data, but no attempt is made to unite the information obtained into a systematic whole so that it will be of service. The filled forms sooner or later reach the waste-paper basket, where they properly belong. In such cases, the purpose of the system is defeated by “red tape.” “Red

A system  
should not  
be subject  
to sudden  
changes.

“Red  
tape.”

tape" is bad system, and should in every instance be avoided.

To work systematically is to work successfully. System is the essential element upon which every substantial enterprise is based. The business which pays no heed to it conveys to the observer that nothing permanent is intended, while, on the other hand, a carefully worked out system stamps an enterprise at once with permanency — an establishment which means business, and one that is intended to be carried on for some future time.

**System a stamp of permanency.**

The unmethodical, unsystematic means of conducting enterprises have had their day, but unfortunately have not in all cases ceased to exist. A careful observation into many enterprises shows that system is practically unknown. One wonders how such enterprises can continue in business, and not be driven into bankruptcy. The greatest want is system, the application of a few simple rules and due respect for the old time-honored principle that order is the first law of the universe.

**In many enterprises, the great want is system.**

A smoothly working and efficient organization is an essential and vital element in securing success in every form of business. A successful business cannot be conducted, and carried on, without system and organization. Business permanency is impossible where system is ignored. A slipshod condition of things is the result. In many cases, enterprises have been driven into bankruptcy as a result of unmethodical ways of management. With keen competition, organization and system are necessary to the successful conducting of every business enterprise.

**Results from lack of system.**

System saves time, eliminates ineffective and unnecessary effort, cuts expense, and insures accuracy and dispatch. It enables the entrepreneur to dismiss details, and at the same time keep in touch with the different departments of a business. The manager should be in sympathy with it, because system demands a close coöperation and sympathy between management and employees. A good system causes coördination of all the best efforts of the organization, coöperation of all its members, enthusiasm for the success of the business, and harmony between departments and members of the organization. Such a system holds an enterprise together, acts as the backbone of its anatomy, and assists in bringing financial success.

**Advantages of system.**

Coöperation, or the act of working together for a common purpose, is found among animals as well as among human beings. It is hard to find any human activity that is not a form of coöperation. Division of labor is not only based on coöperation, but modern industrial development would be impossible without its aid. Coöperation of employees is the first purpose of organization. It is the only means of maintaining a harmonious relationship between members of a business unit. A hearty coöperation between employer and employee is the main strength of every organization and increases the efficiency of both capital and labor. In this era of competition, antagonism between employers and employees means ruin, and its place should be taken by co-

**Coöperation.**

**Coöperation of employees.**

**Its importance.**

öperation. With the growing importance of the human element in business, coöperation is daily receiving more consideration.

Forced coöperation means nothing but disaster to a system as soon as the strong hand is removed. Men have no interest in the business, their thoughts are bent on securing another position, where the driving element is not so much in

**Forced  
coöper-  
ation.**

evidence. But the coöperation in which the bond is mutual interest in the success of the work performed produces enthusiasm and stability which needs no outside support. To enlist the mutual interest and hearty support of employees is one of the most serious and important tasks of an entrepreneur. Success often hinges on its solution. To obtain their coöperation, men should be given a square deal, proper treatment, and a just reward for their services.

**Means of  
obtaining  
coöpera-  
tion.**

They should have some share in devising methods and plans, be made to feel that they are an integral part of the organization, consulted concerning difficulties, and encouraged to suggest ways of overcoming them. An eminent entrepreneur compared business to a three-legged stool, the legs of which were capital, labor and management, and declared that with the coöperation of all three the greatest success is achieved.

A true spirit of coöperation is an important element in every enterprise, but very frequently it is lacking.

Some form of coöperation, nevertheless, exists in every form of business even where employer and employee are estranged or only on friendly

**True spirit  
of coöper-  
ation.**

terms. Working together, with the interest of the en-

terprise at heart, is the proper spirit of workmen and should be sought by every management. Coöperation has two sides, but the employers frequently see but one.

**Benefits  
should be  
mutual.**

They believe that workmen should coöperate with the management to produce goods at low cost, but they are blind to the fact that they should coöperate with the men to assist them to earn higher wages. True coöperation cannot exist without mutual benefits. Management and workmen should each obtain what they are striving for, — the management low costs, the workmen higher wages. In every form of business, true coöperation is more than a theory, it is a necessity, and its importance is gradually being impressed upon every entrepreneur.

Coördination is the act of bringing different parts of an organization together so that they act in harmony.

**Coördina-  
tion.**

In business, it means arranging elements so that each is working to capacity, and at the same time, keeps every other element which is dependent upon it, working to its capacity. In the case of men and machines in a factory, coördination means the working of each to full capacity all the time. A great

**Applied in  
business.**

amount of time is wasted in waiting for materials, supplies, and fixing breakdowns. Coördination demands not only the organization of groups of proper size, but prompt arrival of materials and freedom from breakdowns.

**Effects of  
poor co-  
ordination.**

Men are often prevented from working to full capacity by doing work that should be done by others as for example, a mason building his scaffold, or carrying his brick. A machine is frequently

kept from its full output by the loafing of attendants, carelessness in feeding, not being run at full speed, or loss of time in starting. All these are cases of imperfect coördination. For good coördination, four essentials are necessary: proper planning of work, regular arrival of material and supplies, prompt and proper repairs to equipment, and proper quality of supplies. With the growth of competition, the necessity for proper coördination assumes greater and greater importance. It lessens waste and increases efficiency in output, and at the same time, assures regular and simultaneous efforts on the part of a number of individuals, or departments working for a common purpose.

The ordinary meaning of efficiency is the ratio between the actual performance of a task and its ideal performance. As applied to business, it is the relation between the action which has produced a known result, and the action which has been previously determined for producing a similar result. The best possible performance of an action is obtained by having the task performed with the best possible tools, equipment, and methods, the best skill obtainable and the elimination of all unnecessary movements, but without strenuous effort. This is taken as a standard for the performance of similar actions. The efficiency of an action varies as its performance varies with the standard. Efficiency increases as the performance approaches the standard, and the aim should be to have as little difference as possible between the two.

**Essentials  
for proper  
coördina-  
tion.**

**Efficiency.**

**Efficiency  
in business.**

**Standard  
for effi-  
ciency.**

The study of how to obtain efficient performance is not by any means new. It is one of the oldest things in the world. From the most primitive times, men under a natural inherent stimulus have always sought to obtain a desired result with the least possible effort. Since man began to work for man, various methods have been devised for converting a given outlay of time and labor into the largest attainable result. The methods are as numerous as they are varied and involve every device of human ingenuity. Kindliness and cruelty, high and low wages, selection of the most intelligent grade of workers, carefully supervised training and drilling, steady work, and reward schemes have all been experimented with, but with varying results. Efficiency is no new word, but to-day, it represents a new method devised for its attainment.

Efficiency is a condition, and determined only by knowing how much time, energy and material are actually spent to obtain certain results, and how much is really necessary to obtain the same results. Efficiency is a great detector of losses and wastes in any industrial system. Wastes and losses which were not even suspected are detected, and their value measured. Their elimination is frequently only a slight matter of readjustment. With our keen competition, and our gigantic manufacturing plants, the new efficiency method is a boon. Losses have frequently given way to profits, and success has followed where otherwise failure would have resulted.

In efficiency management, the most important factor



to be considered is the labor force. Efficiency when applied to labor means obtaining the maximum return for a minimum outlay. If one man is more efficient than another, he obtains with a given expenditure of energy, time and capital, a larger though equally good product. Waste of time and energy in the performance of manual labor is not very visible at a glance. A workman may be most industrious, and exerting himself to the utmost, but neither fact proves that he is efficient. Only a careful analysis of the work which he is doing, his method of doing it, and the length of time that he is taking to do it give a true conception of his efficiency. The question of obtaining the greatest possible efficiency of the employees, and at the same time, retain their coöperation, enthusiasm, and interest is one that taxes the ingenuity and ability of an entrepreneur. An efficient labor force is essential to a successful business. Andrew Carnegie once said that his success was due not only to surrounding himself with clever men, but also to knowing how to use their brains to the best advantage.

Meaning  
of efficiency  
as applied  
to labor.

Means of  
attaining  
efficiency  
in labor  
force.

In obtaining efficiency not only labor, but the plant should receive careful consideration. To secure efficiency in a plant requires careful study and planning. It demands a carefully selected location, and properly constructed buildings, the best possible machinery carefully arranged, good tools, machinery and tools always kept in the best repair, the use of the best methods, the careful planning of work, the handling of

Efficiency  
in factory.

raw materials, goods in process of production and finished products in such a way that the machines are never delayed in their work, and lastly, standardization of tools, methods of work, and quality of product. An efficient factory would then be one equipped with the best machinery, always in best repair, run always at full speed, to full capacity, producing goods of the highest quality, the buildings and equipment so arranged and methods of work so employed that the greatest return is obtained with the least expenditure of effort.

Strenuousness and efficiency are not similar terms, but are antagonistic in meaning. The former implies the putting forth of more effort, while the latter means putting forth less. The former overtaxes strength, while the latter does not. To walk four miles an hour is efficient, but to go six by extra exertion is strenuous. Efficiency brings greater results with lessened efforts while strenuousness brings greater results with greater efforts. The efforts of man should be made efficient, but not strenuous. Strenuousness is injurious to man and organization, and every precaution should be taken to avoid it.

Efficiency has assumed such importance that it is considered one of the fundamentals of the industrial system. The greatest waste in business arises from misdirected human effort. Efficiency is conserving and intelligently directing the energies of man, and the converting of wasted efforts into profitable results. Efficiency methods have in the past been confined almost entirely

**Efficient  
factory.**

**Strenuous-  
ness vs.  
efficiency.**

**Efficiency,  
one of the  
fundamen-  
tals of the  
industrial  
system.**

to manufacturing, but they may be applied with equal success to almost every line of business.

Personality is an important factor in business building, and is the element which makes effective organization possible. Its only source is from the human element in business, the men who carry on economic activities. Personality is the strongest bond between men and organization, the foundation of confidence, the basis of permanent growth, and the living spirit of an organization. The personality of the management should be felt down through the organization even to the humblest worker in the business.

**Personality.**

**Its importance.**

Dominating every great organization is a controlling force, a "man behind," whose personality stimulates into action, and guides the whole working force. Such a man should have character and strength combined with kindness, friendliness, and good wishes toward his men. He should be to the organization what the governor is to the engine. He should always keep in touch with his men, and be ever ready to discuss any differences which may arise. Impartiality on his part is almost a virtue. Nothing fosters discontent, creates friction, and throws the whole working force into confusion quicker than favoritism. Angry words, harshness and injustice destroy enthusiasm, interest and loyalty, and have no place in effective organization.

**Characteristics of an industrial leader.**

The feelings which men have towards a business are governed almost entirely by their feelings towards the man who directs them from day to day. It must

Respect  
for the  
rights of  
the work-  
men.

not be forgotten that men are not bits of machinery, but men, and as such possess certain rights which must be respected. The recognition of their rights and making them feel that they are real integral parts of the organization prevents friction, and works towards efficiency. An important problem of the business man is to give personality to his organization. If he succeeds, coöperation, enthusiasm, loyalty, and efficiency follow, and upon these depends, to a very large measure, the success or failure of his undertaking.

Personality  
in large  
corpora-  
tions.

As a corporation increases in size, the importance of the personality of the leader decreases, and that of the organization through which he exercises his personality increases. A measure of efficiency is the extent to which the enthusiasm of the working force is maintained through the organization. Nevertheless, the success of an organization depends largely upon the choice of the proper head, a man who has the character and strength to maintain the personality of the organization. Many enterprises are driven into bankruptcy by having the personality of the organization destroyed by a weak leader. It matters not the type of organization, success in a

Proper re-  
lationship  
between  
employer  
and em-  
ployee.

great measure depends upon the proper relationship existing between the management and the employees. In business, it is becoming more and more recognized, that the successful entrepreneur is the man who can get in touch with his men, and maintain their loyalty and enthusiasm towards the organization of which he is the head.

There is a moral obligation due an employer from every employee to give his best mental effort as well as his manual labor. This service is not fully performed, unless the men become enthusiastic in their work, and work with their whole hearts for the welfare of the business. To obtain and preserve this attitude of employees towards their employer and work is almost priceless.

Every employee must give best mental effort as well as manual labor.

The entrepreneur should identify his employees with his business, should make them feel that they have a stake in its success, and that the organization has an interest in their welfare. Then the men will feel that they are a part of the business and not a cog in a wheel. Each will work for the other's welfare, and all for the success of the enterprise.

To secure skillful men, and to get them to do their utmost for the business, they should be treated as intelligent men. You can drive an ignorant workman to his task, but the skilled man recognizes only executive ability. Men should be led through self-interest, not driven like slaves. In speaking of his work, a man once remarked, "They treat me like a fool, so I act like one." Loyalty of employees toward an organization cannot be expected without impartial fairness, consideration and a regard for their feelings. No work calls for more tactful attention than the handling of men. To get the loyal support of the working force, to make every man feel that his interests are vitally linked with those for whom he is working, is a valuable asset to any business.

Workmen should be treated as men.

The efficiency of his workmen is the employer's

source of profits. Nothing affects efficiency more strongly than the interest which an employee takes in his work. The aim of every entrepreneur should be to increase this interest, loyalty and human bond between employees and employer. A man once spoke with a sneer about his employer. He was dismissed, not because he sneered, but because he was out of harmony with his work. Wherever there is lack of loyalty, there is no enthusiasm, and without enthusiasm, efficiency is lacking. Business success is a matter not only of business ability, but confidence and loyalty as well.

**Business success a matter of business ability, confidence and loyalty.**

Coöperation and loyalty should be whole-hearted, and then we have enthusiasm. Enthusiasm once aroused needs only direction to turn it into success. A very important asset in any business is the impression that the highest official knows the employee personally, and that he is recognized as an essential part of the organization. This arouses an enthusiasm which paves the way for success, and cannot be over-estimated.

## QUESTIONS

1. What is organization, and why is it so important in business?
2. Why cannot standard rules of organization be laid down for all business enterprises?
3. What is the importance of physical, moral and mental qualities in business?
4. How must responsibility be defined, and what are the consequences in case it is not?

5. What are the elements working towards a successful organization, and in what way does each aid?
6. What is the human element in business, and why was it so long neglected?
7. What is system, and why is it so important in business?
8. Why is system the basic structure of organization?
9. What is the proper method for installation of a system? Why do many systems fail?
10. What is coöperation and how is it obtained?
11. Why is the true spirit of coöperation so often lacking in many business enterprises? Is it the fault of the employers or employees, or both?
12. What is the function of coördination, and how is it applied to business?
13. What is the meaning of efficiency, and how is it applied to business?
14. How is efficiency attained (*a*) in the labor force; (*b*) in the plant; (*c*) in the organization?
15. What are the chief characteristics of an industrial leader, and what is the rôle of personality in business?

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## CHAPTER V

### THE ENTREPRENEUR

DURING the handicraft period of industry, management was simply an incidental function of the work of the business man. When the shoemaker was making the whole shoe, buying the raw materials, and selling the product, there was little need for organizing ability. The introduction of capital, and the employment of hired employees, created a demand for the man who could organize the factors of production and supervise their use. The increasing size of the business unit emphasized the importance of organizing and executive ability. The business manager, or the entrepreneur, the man exercising this function, is to-day the most important factor in business. The large corporation depends more for its success upon the ability of the entrepreneur than upon any other factor of production. Executive ability stands preëminently in the foreground as the basic structure of large corporations. Possessing executive ability to an extraordinary degree explains why Americans lead the work in business.

The importance of the entrepreneur in business.

The success of every business depends in a large measure upon its business manager or entrepreneur. His duties are numerous as well as varied. He plans the organization and works out its system. Each should conform to the needs of the business

Duties of entrepreneur.

and be best adapted for the particular case. All parts of the organization should work smoothly and harmoniously. The system should be simple, of few forms, easily understood yet fully and carefully outlining the work, and collecting the necessary information for the management of the business. The entrepreneur, by his carefully planned system, keeps in constant touch with the condition of every part of his organization. He originates plans or policies that affect the organization as a whole, and keeps both his organization and his system abreast of changing conditions, arising from growth, development, or other causes. In short, the entrepreneur is the executive head and responsible for the efficient management of the business enterprise.

The entrepreneur hires labor and assigns each employee to his task. He rents land, borrows capital, and decides to what use each is to be put. He coördinates the different factors in a way to produce the greatest efficiency. He decides what goods are to be produced, their quantity and mode of production. In the production of goods, which depend for their demand on fad or fashion, an entrepreneur should not produce too great a supply over his orders, because he cannot tell when the demand will diminish, and when it does, frequently only a short time elapses before it ceases. When an entrepreneur finds that his goods are being replaced by others, he frequently prevents loss by commencing the production of other lines.

The entrepreneur hires labor, rents land and borrows capital.

He decides the goods to be produced, their quantity and mode of production.

The Studebaker Company, when they discovered that

in a short time their carriage and truck business would be diminished by the demand for automobiles and auto trucks, installed machinery to manufacture the latter. The carriage business greatly decreased, but the new venture more than offset the loss, and their business as a whole continued to prosper. Finally success often depends upon the choice of method of production. Andrew Carnegie, on seeing the making of steel by the Bessemer process, at once realized that the American manufacturer who would first introduce the process would be at a great advantage over his competitors. Much against the wishes of his partners, he had valuable machinery removed, new installed, and in a short time was making Bessemer steel. This quick, decisive action on the part of Carnegie netted his Company several millions in additional profits.

The entrepreneur assumes the risks of business. The chances of loss are many or few, but in every case there is a risk. The entrepreneur may open a store, but he takes the risk of getting customers. He may build a factory, but he takes the risk of selling his goods. He may build a railroad, but he takes the risk of getting traffic. He may send goods to foreign markets, but he takes the risk of the lowering of prices by the time his goods are put on the market. No enterprise is imaginable in which there are not certain risks, and these are borne by the entrepreneur. Those who wish to avoid risks must loan their money at interest, or work for wages or salary.

He assumes  
the risks  
of business.

The entrepreneur relieves the possessors of land, labor and capital, of risks, and insures them against

fluctuations in prices. The assumption of losses arising from changes in prices is a very important part of the risk function of the entrepreneur. Prices indicate the relation between supply and demand of goods, and what the people must pay to have their wants satisfied.

**He relieves the owners of land, labor and capital of risks.**

All prices are liable to fluctuate, because a change in the supply or demand of goods has its influence on prices.

Entrepreneurs who produce for the general market always take great chances. A falling off in demand or a glut in the market frequently causes a lowering of prices below expenses of production. Prices may not change, but labor troubles, increased wages, or increased price of raw materials may bring the expenses of production above the price line at which some time before the entrepreneur was able to sell at a profit. Even if the price which the entrepreneur is to get for his goods should be fixed before he delivers them, as in the case where goods are made to order, it still remains uncertain if he will gain or lose by his work, because circumstances may arise that greatly increase his expenses, and cause loss by the delivery of the goods at the contract price.

**Difficulties in forecasting the future.**

In many branches of trade, especially in textile industries, the difficulties of forecasting the future are great. In order to lessen the risk of price fluctuations, many entrepreneurs make it a practice not only of making a special study themselves, but employing experts to study the movements of fashion, markets for raw materials and finished products, general state of trade, conditions of the money

market, possibility of labor troubles, trend of politics, and other causes likely to influence the prices of their goods during the coming season.

There are always risks arising from circumstances over which the entrepreneur has no control, as loss through fire, lightning, hail, etc. In these cases, the risk is usually shifted to some specialist who can take care of it better than he. Insurance companies make a specialty of taking such risks, and the entrepreneur has his property insured against losses from the aforementioned causes. In fact, there are companies willing for a certain premium to assume loss resulting from any future occurrence. An entrepreneur is able to have his goods in transit insured, and this shifts that part of his risks to the insurance companies. The produce brokers through the various produce exchanges fix prices for the future delivery of many staple goods. By consulting the financial sections of the morning papers the entrepreneur can get the price for delivery of cotton, coffee, wheat, and other staples in any month of the year. Prices for future delivery are made only after careful investigation by experts and specialists who know the conditions that affect the relation between supply and demand. This shifts many risks from the entrepreneur to specialists, but in the long run, the price is usually a little more than it later proves to be, so something is paid for protection against fluctuation in prices.

Risks from circumstances over which the entrepreneur has no control.

Risks shifted to specialists.

The qualities needed to make an ideal entrepreneur are so numerous that few persons possess all to a high

degree. Their relative importance varies with the kind of entrepreneur, and the size of the business. One

**Qualities  
needed for  
a successful  
entrepre-  
neur many  
and varied.**

entrepreneur excels in certain qualities, while another in others. Scarcely any two owe their success to exactly the same combination of advantages. Any system of management is directly dependent upon the employees

for success. Dealing with theories, ideals and principles, and not with workmen, never results in an efficient

**I. Select,  
train and  
handle  
men to  
best ad-  
vantage.**

administration. The first quality of an entrepreneur is to know how to select, train and handle men to best advantage. No matter how brilliant the methods of organization, or how great the personal capacity for work,

an entrepreneur should be able to secure men capable of carrying out his plans, and possess the art of holding the men in his service, and keeping them to the highest point of efficiency. The ability of knowing how to select the right men, and molding them into a harmonious whole, is a most valued asset of an entrepreneur. In dealing with men, an entrepreneur should be able to make them feel that they are not simply cogs in a great machine, but have important responsibilities, and are depended upon as vital assistants in the organization.

A close man-to-man relationship between employer and employee is priceless. It arouses interest, enthu-

**Importance  
of the  
selection  
of good  
foremen.**

siasm, and loyalty, the three great essentials of success. The entrepreneur should be able to select the right foremen for the right places, men who are not only best fitted for the posi-

tions, but who know how to arouse loyalty with resulting

coöperation in the working force. Andrew Carnegie is perhaps the best judge of men in America. It is said that he never made a mistake in his choice of a proper man for his many responsible places, and his success was due in a large measure to this ability. The selecting and handling of men is of much more significance to-day than ever before and continues to increase in importance as the business units grow in size, and the individual employee is further removed from the head of the organization. Men who know how to get maximum results out of machines are common, but men who know how to get coöperation, and the greatest efficiency from the human element in industry are rare. The latter must be close students of human nature, and this is not common among entrepreneurs.

The entrepreneur should be able to forecast the future. He should be able to pick out business possibilities, and to estimate their outcome in the future. This is especially true in all new ventures. Thousands of people have money-making schemes, and urge their acceptance for development by entrepreneurs. The vast majority of these schemes are purely visionary as only a few possess merit. An entrepreneur should be able to pick out those possessing possibilities and develop them into business enterprises. He should carefully survey the field of production and consumption, and be able to forecast the opportunity for supplying a new good that will have a demand, and detect any new methods and processes for the production of the old product. An entrepreneur

**II. Fore-  
cast the  
future.**

**Choose the  
venture  
that will  
prove  
successful.**

**Anticipate  
the demand  
for goods.**

should anticipate the demand for his goods, and be ready to supply it when it arises. This need is greater to-day than ever before, and the profits of many an entrepreneur often depend largely on his ability to foresee increased demand, and correctly estimate the amount necessary to supply it.

Ingenuity and good judgment are real forces in business. These qualities are especially needed in planning an organization and working out the rules, and methods for a system suitable to meet the conditions of a particular case.

Good judgment is simply the application of knowledge gained by experience. It is obtained partly by direct observation and partly by data compiled by others. It is absolutely necessary to have a system which furnishes correct and necessary information of the various departments of the business. Good judgment implies knowledge of details, understanding of immediate conditions, foresight and decision. A manager with good judgment is valuable, but he must have good tools. If he does not possess these, a man of less ability, with better organization, system and equipment will surpass him.

An entrepreneur should be a specialist in organizing, systematizing and coördinating the different factors of a business. The keynote of the whole problem of industrial organization is harmony. The manager should bring each detail of a business into close relationship with every other, and should make each detail efficient in itself. To accomplish this he should be fully acquainted with the elements which

III. Ingenuity and good judgment.

IV. Organize, systematize and co-ordinate the different factors of a business.



combine to form his organization. A manager should select efficient assistants, and distribute the work among them in a way that coördinates the many detailed processes into one systematic whole. He should plan a system, simple, definite and businesslike, and designed for his own special case. He should prune it of all unnecessary forms of red tape, and make it purely a means of making the management more efficient. Such is possible, when an entrepreneur knows the condition of every branch of his business, and is the master rather than a servant to his system. Harmony and coördination in the work, efficiency and coöperation in the working force test the ability of an entrepreneur, and are essentials of effective organization.

The entrepreneur should have technical knowledge of the methods and processes of his undertaking. This is especially desirable in every form of business organization. It is true that in a large corporation, all the technical work is performed by salaried assistants, yet to make an organization and a system efficient, a technical knowledge is absolutely necessary. An entrepreneur deals only with the results of different processes and methods, but to know that he is getting proper results, he should have an intimate knowledge of the different processes of his business. The large majority of our railroad presidents as well as many of our great industrial leaders are men who have come up through the ranks and are masters of every process and method of their particular business enterprise.

Plan a  
system  
suited to  
his case.

V. Tech-  
nical knowl-  
edge of  
the methods  
and pro-  
cesses of  
his under-  
taking.

The entrepreneur should be a strong and resourceful leader, a man of character and strength, combined with good wishes to his men. He should be a practical man, with ability to inspire men with his own ideas, energy and ability. The entrepreneur should be able to control himself, and give a reprimand under the most trying circumstances without losing his temper. He should be firm, dignified and always ready to help and work with his men as well as direct them. He should be approachable, sympathetic, mingle with his men, and take an interest in their welfare, but should not allow familiarity, because it breeds a feeling of disrespect towards the head. He should be entirely free from favoritism, able to treat every case on its merits, and a man among men, a leader and not a driver.

An entrepreneur should have confidence in himself and be able to inspire confidence in his organization.

**VII. Confidence in self and ability to inspire confidence in others.** A thorough knowledge of what is to be done, confidence in one's ability to do it, and the inspiring of that confidence in the working force is a valuable asset to any man. When confidence is lacking among men, a lack of enthusiasm, loyalty and coöperation inevitably follows. Confidence on the part of an entrepreneur decides what can be done, and at the same time drives and inspires him to his utmost to do it. Courage, resolution and stimulation of energy and genius, three essentials of success, are all based on confidence. The whole business world is based on it, and where lacking, failure follows.

An entrepreneur should have ability to command capital. He rarely has the capital necessary to start a new enterprise, and when he borrows, everything practically depends on the confidence of the loaning public in his ability to make a success of an undertaking. An established enterprise frequently needs capital for various purposes, and whether or not it is forthcoming, depends largely upon confidence in the entrepreneur. Many successful business men can obtain any sums of money for the mere asking, without any explanation of the manner of investment, while scores of others cannot raise a few hundred dollars without safeguards in the way of security. The ability to inspire confidence in others so as to command their capital is a valuable asset to an entrepreneur.

**VIII. Ability to command capital.**

The people who undertake the risks in a corporation are the stockholders, but they take no active part in the management of the business, or in the superintendence of its details. The stockholders elect a board of directors and to them intrust the control of the enterprise. The directors exercise general supervision and determine important matters of business. They do not give their whole time to the business, but are supposed to bring wide general knowledge and sound judgment to bear on the important problems of the enterprise. Salaried managers and assistants are appointed, and to them is left a large part of the management and the whole of superintending the details of the enterprise. The risks in a corporation are thus borne by the stockholders, and the management is divided among the directors and a staff of salaried officials.

**Stockholders the risk-takers.**

The manager of a small business enterprise obtains his details by personal inspection, and mentally stores them for future use, but in a large corporation, the executive head no longer devotes his time to minor details. Until recently, many believed that the more details a man could look after, during the course of a day, the more he could accomplish. To-day the efficient manager eliminates from his work as many details as possible. Nevertheless, the manager should know accurately the actual conditions of every department. It is absolutely necessary and important for the executive head to be thoroughly familiar with his business, its needs and operations. He can accomplish this by a proper series of reports. These reports should be simple and accurate, containing everything that is important, and eliminating unnecessary details. An efficient system depends in a large measure upon the heads of the various departments. This emphasizes the importance of selecting proper men as assistants. They should be men who thoroughly understand their work, and possess, among other qualities, the ability to accurately obtain, and summarize into simple reports, the details necessary for their chief to know. With an efficient system of reports, the manager concentrates his work at his desk, and has constantly before him all the important information concerning the business. He can, without leaving his office, keep in touch with the workings of every department.

**The old method of dealing with details.**

**Elimination of details.**

**Reports.**

**The selection of assistants.**

The manager is the director of the broader policies

and the larger activities of an enterprise, and by devoting his time to details, it takes away the opportunity for this more important work. Crowd the brain with details, and there is little room for the essential work of supervision. The time of the manager is too valuable to be consumed with details, which can just as well be performed by minor officials, and time so spent is time wasted. Many a failure is due to unwillingness to intrust detail work to employees. The entrepreneur of to-day is the doer of big things, and must, as far as possible, devote his time to such work. The success of many of our railroad presidents and industrial managers is, in a large measure, due to their keeping in touch with all parts of the business through an efficient system of reports, and devoting their time to the directing and accomplishing of bigger things.

The successful manager does not attempt to do the work of subordinates, but reserves his ability for more important problems. Furthermore, in a business of any size, it is impossible for one man to keep under his control all decision and action. It is a poor manager who does not delegate definite responsibilities to his subordinates. Frequently subordinates become dissatisfied when all responsibility is taken away, and this works against coöperation and efficiency. A good manager gives all possible weight to the opinions of his subordinates, and, as he gains confidence in their judgment, leaves many points entirely to their decision. Every entrepreneur should insist that subordinates follow out his decisions, as to methods in organization, handling men and other business matters.

Evils of  
too many  
details.

Delegates  
work to  
subor-  
dinates.

Every entrepreneur should have definitely fixed in his mind his personal position in the organization, and his attitude towards the different members of the working force. The relations of the different departments to each other, as well as the relations between the executive head, the department heads, and the subordinates, should be carefully and definitely defined. The entrepreneur stands responsible for the success or failure of a business, and for the presence of each one of his assistants, but he does not assume the entire responsibilities of these assistants. Each assistant has the same relation to those under him as his chief bears to him. Care should always be exercised in giving orders only through the immediate boss or superintendent. The giving of orders by a superior official to men who are held responsible to a lower official shows bad judgment, and has a tendency to lessen the respect, and to shake the confidence of the men, in their own boss.

Authority should be so established that minor breaches can be ignored and pass unnoticed. But when the time comes for definite action, and after all possible consideration has been given, the entrepreneur should enforce his decisions to the letter, and without mercy. It should not be forgotten that the practice of showing authority for authority's sake is bad and breeds dissatisfaction and friction.

In every business enterprise, some form of discipline is necessary. Every man should be responsible to some higher authority, and there should never be any doubt as to that authority. Discipline

should always come through the foreman. If a higher official wishes to discipline some workman, it should always be done through the foreman, or else the men will lose respect for him. Those in supervising or directing positions should always maintain their dignity. A foreman or boss should in all his actions be a man among his men and never allow or countenance any form of familiarity. Discipline is then not difficult. In every business, from the executive chief down to the humblest workman, discipline must be maintained.

An efficient manager is always on the lookout for new ideas. Information is the soul of business progress. The business world presents continually to the eyes of the interested entrepreneur suggestions and ideas, that can be applied to his own business. Scores of entrepreneurs find it profitable to pay large sums of money to their employees for suggestions. Many large corporations keep a special staff seeking new processes, ideas and methods that will result in greater efficiency. The modern business must be up-to-date, as the old way of doing things soon becomes obsolete. New improvements, methods, processes and systems often arise from ideas obtained here and there and changed to meet the conditions of an enterprise.

**Manager  
on lookout  
for ideas  
and sug-  
gestions.**

The efficiency of an entrepreneur is measured in the business world by his ability to make profits. To accomplish this goal, every manager has three aims. First, he strives to buy the factors as cheaply as possible. Labor is the only factor with which there is difficulty. The cheapest paid labor is

**Three aims  
of entre-  
preneur.**

invariably the dearest. The aim is to obtain the best skilled and the most efficient labor, and to properly reward it. High wages and low costs go hand in hand. Secondly, he strives to coördinate and organize his factors effectively. Thirdly, he endeavors to sell his product at the highest possible price. The nearer he reaches the fulfillment of these aims, the greater are his chances of success, and the greater his profits.

Every management seeks efficiency, which is ultimately measured in terms of the quantity and quality of output. To reach efficiency, certain demands are made of the entrepreneur. First, he must get his work performed accurately and rapidly. The greater the elimination of unnecessary efforts, movements, and wasted time, the nearer is the entrepreneur to his goal. Secondly, he must get the maximum result from machinery and equipment. This demands proper co-ordination, and the best possible equipped enterprise. Thirdly, he must get the maximum output as well as the maximum quality from his raw products. Fourthly, he must market his goods at the highest price. Lastly, he must see that improvements in methods and equipment are introduced in order to keep the business abreast of the times, and prevent it from becoming obsolete.

Management is the reaching of a given end with economy of means. The attempt to reduce management to a compact body of fixed rules and principles, common to all enterprises would be foolhardiness, yet there are certain established methods, practices, and

**Demands  
made on  
entrepre-  
neur to  
reach high  
efficiency.**



well-defined principles, which are helpful in working out the organization of any particular enterprise. It was only a few years ago that business men ridiculed the idea of using in business anything which was taken from the writings of others. The study of management was omitted from the student's training, and little literature could be had on the subject. It was never doubted that knowledge of management would be of great value, but it was believed that one could learn to manage only by going out and watching others manage. Recently, it was discovered that efficient management is founded on laws, practices, and methods that could be taught, and the study of management in the classroom has become possible.

Established methods, practices and principles of service in working out an organization.

The owner of capital gets his interest, the laborer his wages, the owner of land his rent, but the man who performs the entrepreneur's functions depends upon what is left for his remuneration.

Profits.

Whether or not anything is left depends upon the ability of the entrepreneur to sell his product for a sum greater than is necessary to meet his expenses of production. The difference between the returns of an enterprise and the total expense of conducting it is called profits. Profits, therefore, depend upon the difference between the cost price per unit of a good and its selling price.

They do not represent any fixed sum, as conditions governing them vary from day to day.

Do not represent a fixed sum.

Every entrepreneur strives for profits, and his efficiency as an entrepreneur is measured in the business world

by his ability to make profits. Profits do not depend on any one thing in particular, but upon everything affecting expenses, from the time raw materials are bought, until the product is put upon the market and sold. Profits are either measured for a unit of time as a month or a year, or with reference to particular units of a good. Sometimes the word is used with one meaning and sometimes with another. It is not necessary to make further distinction, because in the long run, annual profits are based upon the profits on particular units of a good.

A twofold division may be made of profits, — wages of management, and compensation for risk.

Twofold  
division of  
profits:  
(1) wages  
of manage-  
ment,  
(2) compen-  
sation for  
risk.

management are wages received for organizing, directing and supervising an enterprise. In a small enterprise, the entrepreneur retains what is left after paying expenses of production, but rarely counts as part of the expenses, his wages of management. But in large corporations, the executive and managerial work

is done by salaried officials, from the directors, who usually receive a stipulated sum per meeting, to the

Wages of  
manage-  
ment.

low-paid boss of a gang of men. Their salaries are counted in expenses of production, and profits are what are left. This

only shows part of actual profits, and to obtain the total, there should be added every dollar paid for managing and superintending. Entrepreneurs of small enterprises have everything at stake, but in large corporations those who perform the executive functions, with the exception of the directors, usually have little financial

interest in the enterprise. Success only means a possible increase of salary, and failure, a loss of position.

The amount paid for performing managerial services varies from a small wage per day paid to a gang boss, to the princely salary of a railroad president, or manager of a large industrial corporation. No field in America possesses such opportunity for rapid advancement as the managerial. There is an urgent demand for men who can do things, and this is increasing at a more rapid rate than the supply of properly qualified men. If a man possesses executive ability, his worth is early recognized and his advancement is rapid. Many large corporations are under the guidance of men under thirty, who a few years previous started in humble positions.

Profits should be sufficient to induce an entrepreneur to conduct a business enterprise. Minimum profits are usually measured by the wages an entrepreneur can get working as an employee. Sometimes an entrepreneur feels that the independence enjoyed in conducting an enterprise is of some consideration, and continues as an entrepreneur when his profits are lower than the wages he could get working for some one else. An entrepreneur conducting a business compares his profits with the wages that he might receive as an employee, while the employee compares his wages with the profits received by entrepreneurs whom he considers of his ability. The result of the comparison decides whether or not many persons remain employees or entrepreneurs.

As wages vary in amount from a yearly remuneration

of a few hundred to many thousands of dollars, depending upon the ability required, and the supply and demand of men of that ability, so profits vary likewise. **Profits vary in amount.** The annual profits of a keeper of a news-stand amount only to a small sum, while those of a large manufacturer are often several hundred thousand dollars. The ability to conduct a news-stand is commonplace, and the risk slight, so the profits must necessarily be low, or a great many people would become news-dealers. The increase in the number of news-dealers lowers profits and drives many back to the class of employees. Profits in this case cannot be much above the minimum. The skill required to conduct a millionaire corporation is great, and the risks involved are also great, so the profits must necessarily be large.

The second division of profits is compensation for taking the risks involved in business. Risks exist in every form of business, but vary in number and in degree. **Compensation for risk-taking varies.** Compensation for risk-taking varies from a small return where risks are slight to large sums where they are hazardous. An entrepreneur rents land, hires labor and borrows capital for the purpose of producing economic goods which he hopes to sell at prices greater than his outlay. With staple goods, there is always a risk of an increase in supply, causing a lowering of price and possibly a loss. An entrepreneur may, by a careful study of market conditions, forecast an increased demand and prepare to meet it. If his forecast proves correct, he is rewarded by a large increase in profits. He nevertheless takes the risk of the new demand not materializing, and he would thus be forced to

sell his increased supply at a loss. With goods whose demand depends on fads or fashion, risks are much greater. The profits of an entrepreneur depend upon forecasting the amount necessary to meet the demand before it wanes, but there is always the risk of a sudden wane. In sending goods to foreign markets, there is always the risk of oversupply. An entrepreneur working on contracts always takes the risk of labor troubles, or an increase in wages, or prices, before the contract is finished. His profits depend partly on luck, and partly on his ability to forecast conditions and prices. Risk-taking is one of the important functions of the entrepreneur, and occupies an important place in modern business.

Always  
risks until  
goods are  
actually  
sold.

Many risks against loss from various causes are taken by specialists, and many of the risks of future buying are borne by speculators. Nevertheless, it is true that in every business, there remain risks, and the large profits of the entrepreneur depend upon them. The greater the risks, and successful, the larger the profits. The risk-taker should study conditions affecting the production and sale of his product, and then forecast the future. In the case of new ventures, large profits accrue to the entrepreneur who chooses the venture which develops into a successful enterprise. Entrepreneurs look for their greatest profits from risk-taking, and the financial success of many depends upon the extent of their success in forecasting. Profits are frequently the results of pure chance or luck, and success is often due more to luck than to successful forecasting. Luck

Profits de-  
pend upon  
successfully  
taking risks.

Luck often  
an impor-  
tant factor.

is an important factor in the success of many an entrepreneur, and it must not be omitted in accounting for many large profits.

Where risks are slight, the profits of an entrepreneur are not much greater than his wages of management, but with an increase in risks, the difference between profits and wages of management increases, until, in hazardous ventures which prove successful, compensation for risk-taking is by far the greater share of the total profits. The profits of a business enterprise consist partly of wages of management, partly compensation for risk-taking, and in certain cases partly the result of pure chance or luck.

The entrepreneur in the modern business world occupies a more prominent place than any factor of business.

The place of the entrepreneur in business. The larger the business unit, the more important is his function. It is true that there must be land, labor and capital, but they are of little consequence without coördination, supervision and management. The entrepreneur's task of coördinating land, labor, and capital, of supervising all their activities, and of assuming all responsibilities and risks of business, is the bone and sinew of every business enterprise, and its successful performance means success.

## QUESTIONS

1. Why does the entrepreneur occupy such a prominent place in our industrial system?

2. What are the duties of the entrepreneur? Why were they not necessary during the handicraft period?

3. Name and explain the different functions of the entrepreneur.

4. In what way does the entrepreneur relieve the possessors of land, labor, and capital of the risks of business?

5. What is forecasting the future? Why does success so often depend upon it?

6. Name and explain the various ways that business men protect themselves against the uncertainties of the future.

7. What is the economic importance of speculators and insurance companies in our industrial system?

8. What essential qualities should an entrepreneur possess? Estimate the importance of each.

9. Outline the steps necessary to take in deciding whether or not a venture will develop into a successful enterprise.

10. Why do enthusiasm, loyalty, and coöperation depend in a large measure upon confidence? What is the rôle of confidence in a successful business?

11. How are the entrepreneur's functions performed in a corporation? Name the different classes sharing in the functions and the part taken by each.

12. How do details interfere with business success? How do successful business men deal with details?

13. Why is information the soul of business? Mention the different ways entrepreneurs get ideas and suggestions for use in business.

14. How is the entrepreneur rewarded for his efforts? Compare the return for managerial ability in a single entrepreneurship with a large corporation.

15. Into what classes may profits be divided? Comment upon each class.

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## CHAPTER VI

### ANALYSIS OF COST ACCOUNTING

A FACTORY, from the business point of view, is operated for the purpose of producing goods for sale. Commencing with the outlay for raw materials, there is more or less expenditure until the finished product is ready for the market. Two items of cost enter directly into the total cost of every manufactured article, namely, materials and labor. The other costs in production not charged directly to any article are called overhead expenses. Material costs include all outlays for materials used in the making of a product entering into and becoming a part of it. Supplies, as coal, oil, small tools, etc., are necessary materials in every factory, but their cost cannot be charged to any one article, so must be charged to overhead expenses.

Labor employed may be direct or indirect, sometimes called productive and non-productive. Direct or productive labor is labor employed directly in the production of an article. All employees directly attending machines or working on materials belong to this class. In every factory, a great many are employed whose work cannot be charged to any particular article, but the outlay for which must be charged to many. These laborers are called non-productive labor.

tive, and include firemen, engineers, helpers, superintendents, sweepers, etc. The outlay for direct labor is charged to labor, while that for indirect to overhead expenses.

Overhead expenses are all expenses which are not charged to direct labor or direct materials. They are known by various names, as indirect costs, **Division of overhead expenses.** burden, overhead burden, overhead expenses, and running expenses, and are divided into many classes, as rent, light, heat, power, repairs, depreciation, insurance, taxes, non-productive labor, supplies, interest, royalties, legal services, and selling expense.

Materials, labor costs, and overheard expenses must be paid from money returns before profits are made.

**Costs and selling prices are the two chief factors in profits.** The gross income from any manufacturing plant consists of the money received from the sale of goods, and an entrepreneur to make profits must produce his product at a cost less than the amount received for his goods. Success or failure depends on his ability to have the balance on the side of sales. An entrepreneur strives not only for a balance, but to make this balance as large as possible, because it is upon this, that his position in the business world depends. To assure a favorable balance, the closest attention must be given not only to the selling of the product, but to every stage of its production. Profits are increased by an increase in prices with total costs remaining the same, or with prices stationary and a decrease in total costs. With increase in competition in all industrial lines, and its resultant influence on prices, causing with few exceptions, narrower margins between selling

and cost prices, the entrepreneur was driven to the side of costs to assure his profits. Attention was formerly given to selling prices, but at present it is directed to costs. The entrepreneur realizes more than ever before that any saving in cost, other things remaining the same, means addition in profits, and that a saving in costs may more than offset a lowering of selling price.

Manufacturers formerly did not think it important to make any study of production costs, and determine as nearly as possible their accuracy. In reality, in the majority of cases, a system of costs was merely a matter of guesswork. During the past few years, the increased effort to lessen costs has developed into almost a science, in the study not only of total production cost, but its constituent parts. This new work is known as cost accounting, and is daily attracting more and more attention. Cost accounting is a system of records which enables a manufacturer to ascertain with fair accuracy not only the production cost of his product, but the constituent elements of that cost.

Evolution  
of cost  
keeping.

Cost ac-  
counting, its  
meaning.

Cost accounting has for its primary object, the accounting for every expenditure made during the different stages of production. A secondary object is to find out the cost of each item chargeable against each unit of the product. Commencing with raw material and following a good through the different stages until it is shipped as a finished product, cost accounting is carried on by a series of daily records. Records to be complete should deal, first, with raw materials ; secondly, with direct labor em-

Cost  
records.

Essentials.

ployed during the different stages of production ; and, lastly, with general expense incidental to the different processes of production.

The daily records are obtained by means of printed cards. Care should be taken that only the information

**Means of  
obtaining  
information.**

which is necessary to ascertain costs is asked for. It is the work of a cost expert to ask only for essential information, and employees

should be careful to charge all expenditures in the right places. Frequently the value of a record is partially destroyed by containing a mass of unimportant details. No fixed rule can be laid down as to what information the cards should call for, as this varies not only in plants producing different goods, but in factories producing the same kinds of goods. This is left solely to the judgment of the expert. Cards should be of a size suitable for filing, and for easy reference. The value of a good sys-

**Importance  
of a good  
index and  
filing sys-  
tem.**

tem of records rests chiefly in the facility it provides for quick and ready reference. Nothing is so essential to a cost system as an efficient filing and indexing system. This

in the past has been neglected, and it has in many cases been the cause of the failure of many cost systems. A great value of records arises from a scientific study of them. This is made possible only by careful filing and indexing. Many a cost system has been installed, failed, and a return made to guesswork simply because the records were valueless by not being properly filed and indexed.

Expenses should be divided among the three chief items of costs, direct materials, direct labor, and overhead ex-

penses. Direct material is usually weighed, measured or counted, and its value is easily ascertained. The factory charge for material should be a little more than the invoice price. Care should be taken to include all outlays until time of use. Transportation charges should be added. The keeping of material on hand means the loss of interest on the amount of money invested, so that its cost to the factory increases every day it is idle. There is additional expense for wages, rent of storeroom, loss through defective parts, shrinkage, and insurance. It is no more than fair to recognize this expense by an increase in the price at which the material is charged out to the shop. The cost of material to the workmen is therefore found by adding to the invoice price, transportation charges, and a small percentage for expenses to the material while in storage.

Value of  
direct ma-  
terial  
easily as-  
certained.

There is little difficulty in computing the cost of direct labor. Several methods are in use for keeping account of the number of hours of labor performed upon a piece of work. A simple method is to have each workman keep a daily card, and on it, keep a record of the number of the job on which he had worked, and the number of hours spent upon it. A second method also widely used, is to have the time of the workman marked on a ticket, which follows each job through the factory. When finished, the number of hours of direct labor is grouped together on the ticket. With the rate per hour, and the number of hours of labor, the labor costs can easily be computed.

Computing  
cost of  
direct  
labor.

Method.

Overhead expense charge is of such a nature that it

cannot be assigned directly to any article. Its determination and proper diffusion is the most difficult task of cost accounting. The problem is to find out the amount which should be added to the direct cost of an article to represent a fair share of the overhead expenses for that article. Diffusion of general expenses is the great cause of the difficulties and inaccuracies that arise in cost finding.

**The diffusion of overhead expenses.** Several attempts have been made to obtain a uniform system of cost accounting. In the case of railroads, gas companies, and other public utility corporations, a standard system has been worked out and is proving satisfactory. But manufacturing enterprises differ so much in their operation that all attempts at a standard system have failed.

Various methods have been used for distributing overhead expenses. The oldest is based solely on machinery used. It provides an additional charge proportionate to the interest on the money invested in machinery and depreciation. There are so many other items besides interest and depreciation that it is absurd to make this the basis of distribution. When it was widely used, no pretense was made to obtain accuracy. The method is inadequate and is of little practical use.

**Methods of diffusion.**

**Based on machinery used.**

A second method is one extensively used in Great Britain. The basis of distribution is direct wages, and the method is sometimes called the percentage-to-labor. The percentage the overhead expense is of the total direct wages is

**The percentage to direct labor method.**

what is added for overhead expenses. If, for a month, the wages are one thousand dollars and the factory costs four hundred, the overhead expense is therefore forty per cent of the wages. To cover the overhead expense, the direct labor charge would therefore be increased by forty per cent. This method gives a fairly accurate total cost, but it fails in giving any satisfactory distribution of the overhead expense. Everything is based on the direct labor cost, but overhead expenses do not bear any close relation to it. They depend no more on direct wages than they do on depreciation.

A third method is known as the hourly rate plan. The total number of hours of work by all direct labor for a certain period, is divided into the total overhead expenses for the same period, and the quotient is taken as the hourly rate for overhead expenses. If, during a month, a factory had ten thousand hours of direct labor and five thousand dollars of overhead expenses, the hourly rate would be ten thousand dollars divided by five thousand, or fifty cents. The rate is computed at the end of each month, and is used for the succeeding month. For every hour of work on an article, fifty cents is added as its share of overhead expenses. If a factory used machines of about the same value, the method would give a fairly accurate distribution. But in the present complex industrial system, the average factory contains different grades of machines. The charging of the same rate to the most expensive machines as to the most inexpensive is misleading and inaccurate.

The hourly  
rate  
method.

A fourth method is to charge a rate proportionate to

the relation of overhead expenses to the total direct costs. If, in a factory, the total direct costs for a certain cost period amount to two hundred dollars, and the overhead expenses one hundred dollars, therefore for every dollar in direct cost, fifty per cent is added as the proper charge for overhead expenses. As in the former case, the cost rate is fixed at the end of the cost period, and is charged for the succeeding period. This method is based upon the belief that all work done in a shop should bear the same proportionate share of expense. Little criticism can be made if all the goods produced are of a similar nature and equal in value. Where many goods of different values are manufactured, the method fails.

**Charge a rate proportionate to relation of overhead expenses to total direct costs.** The sales method is one used in many wholesale and retail stores. The distribution of overhead expenses among the different departments is made according to the ratio of the sales of a department to the total sales of all departments. If the total sales amount to one hundred thousand dollars and those of the silk department to ten thousand dollars, therefore one tenth of the total overhead expense is charged to the silk department. In a factory, this method is unsuitable and is rarely found.

**Sales method.** Lastly, the machine hour is a method widely used, and is suitable for the average modern factory. Overhead expenses are divided into three classes: overhead factory costs, administrative expenses, and selling costs. For distribution of overhead factory costs, the factory is divided into a number of

**Machine-hour method.**



departments, or units. A unit may consist of the space containing many or that occupied by a single machine. The latter is preferable, and according to this division, there are as many units as machines. The area of a unit consists of the space occupied by a machine with sufficient room for the materials to be worked upon, and the movements of the workman in the performance of his duties. The size of the space varies with the machine.

**Division of  
overhead  
expenses.**

**Overhead  
factory  
costs.**

Many items of factory costs can be distributed directly to the different units. This narrowing should be carried on as far as practicable. There remains only those costs which are strictly general in their nature, and which cannot be assigned to any definite unit. As with other methods, a certain expense period, usually a month, is chosen. The rate ascertained for one month serves as the rate for the succeeding month. In a factory working under ordinary conditions, the rate does not vary very much from month to month. Nevertheless, for each month the rate should be computed and changed if necessary.

**Distribute  
directly  
whenever  
practicable.**

Rent, interest, taxes, insurance, heat, light, power, depreciation, and repairs are some of the items which may ordinarily be distributed to the different machine units. The rent for a machine is proportional to the space occupied by it, as compared with the total floor space of the factory. If a factory with ten thousand square feet of floor space pays a monthly rental of one hundred dollars, the rental charged to a machine occupying a hundred square feet

**Overhead  
expenses  
distributed  
directly.**

would be one dollar. In a similar way, heat and light charges are distributed. Value rather than space oc-

**Methods.** cupied is considered in the distribution of interest, taxes, and insurance. Total power expense is distributed among the various machines according to the horse-power hours used by each. The depreciation of each machine is computed separately, but additional allowance is made for the proportionate share of the depreciation expense of the factory building in which the machine is located. The monthly depreciation for the factory buildings is computed, and is distributed to the different machines in proportion to the space occupied by each. Expenses for repairs are, wherever possible, charged to the machine repaired. Repairs to small tools are charged to general overhead expenses.

It is customary to limit the cost period to a month, but sometimes a longer period is chosen. Divide the

**Cost period.** total overhead factory costs of each machine unit by the total number of working hours of each machine for the cost period, and the results give the special hourly burden rates. Add the remaining items of

**Method for finding machine-hour rate.** overhead factory costs, which cannot be directly distributed, and divide by the total number of working hours of all machines for the period, and the result is the supplementary hourly burden rate for overhead factory costs not directly distributed. In any machine, the special rate for the machine, plus the supplementary rate, distributes the overhead factory costs in the form of an hourly rate charge for the use of the machine.

The diffusion of overhead factory costs is the most difficult task of the cost expert. A standard method for factories has not yet been discovered. The general principles of one method may be used in two factories, but to meet local conditions, the detailed working must be different. A successful method of distributing overhead factory costs must be suited for the particular factory where it is operating. The study of factory conditions, and the planning of a system for the diffusion of overhead factory costs is the work of an expert, and a thoroughly competent person should be intrusted with the task.

**Diffusion  
of overhead  
factory  
costs.**

Administrative expenses cannot be directly charged, but must be generally diffused. A satisfactory method is by a percentage addition to the factory costs. This is secured by reducing to a percentage basis, the fraction obtained by dividing the whole administrative expense for the cost period by the total factory costs. For example, if ten thousand dollars were the factory costs, and five hundred dollars the administrative expenses, it is necessary to add five per cent to the factory costs to cover administrative expenses.

**Administra-  
tive ex-  
penses.**

Selling expenses include all expenses incidental to the selling of a product. The distribution is based on the value of the product sold. Each article sold should bear its proportion of the selling cost. The best practice is to distribute the selling expense by a flat rate based on the total selling expense, as compared with the total value of the goods sold. If ten thousand dollars equal the total selling expense, and

**Distribu-  
tion of  
selling ex-  
penses.**

two hundred thousand dollars the value of the goods sold, five per cent is added to the sum of the factory costs and administrative expenses to cover selling expenses. The total cost of a manufactured article would be the direct material cost plus the direct labor cost, plus the overhead factory expense, computed by multiplying the number of hours of machine labor by the sum of the special and supplementary hourly rates plus the percentage for administrative expenses, and to this gross, the percentage for selling expenses. For example, if the direct material used costs five dollars, and direct labor ten dollars, the number of machine hours twenty, special hourly rate fifty cents, and supplementary rate twenty-five cents, administrative expenses ten per cent, and selling cost five per cent, the total cost of the article would be five dollars plus ten dollars plus fifteen dollars, which equals thirty dollars, plus three dollars equals thirty-three dollars, plus one dollar and sixty-five cents equals thirty-four dollars and sixty-five cents.

The principles of cost accounting, generally speaking, are the same for all manufacturing plants, but the method of application differs according to factory conditions. A successful system must be developed for each factory, and specifically adapted to meet local conditions. A thorough understanding of the general principles of cost accounting and a careful knowledge of local conditions are necessary for the planning of a successful system. Full consideration must be given to the existing state of affairs, nature of the product, method of production and size of plant. These details vary in different plants,

**Successful  
system  
must be  
developed  
for each  
factory.**

and to meet these, proves the ability of the cost expert. No general rigid system can be given, but it must in every instance be a product of the particular plant.

Bookkeeping is the process of recording business transactions for the purpose of showing debits and credits. It is simply a clerical function. Cost keeping has, on the other hand, to do with finding unit costs. It is concerned in placing in the most direct way, the cost of every element that goes to make the total cost of a product. Bookkeeping begins where cost keeping leaves off. Cost keeping was developed by factory experts and not by accountants. Expert accountants have no knowledge of actual factory conditions. They are only concerned with accounts, and do not know what will reduce costs in a factory, or what system of cost keeping will prove most effectual. Accountancy and a careful training in factory conditions and operations are essential to the successful and efficient cost expert.

In this age of small margins, it is necessary for a manufacturer to know as nearly as possible, in dollars and cents, the accurate cost of every step that he takes, and every unit of product that he produces. The factory making money without such knowledge is depending entirely upon the good judgment of the manager and luck. Its success depends more or less upon good guessing. Safety lies only in a large margin between costs and selling prices. If total and constituent costs are furnished, how much better can good judgment be applied, and how much greater is the assurance and guarantee of success.

Book-  
keeping  
vs.  
Cost ac-  
counting.

Success  
often de-  
pends upon  
guesswork  
and luck.

Every manufacturer should know the conditions existing in every part of his factory. This can be se-

Cost ac-      cured by means of accurate cost accounting.

counting      A carefully devised cost system readily gives,  
assists in  
many ways.      in detail, the working conditions in all parts of

a plant. It shows, if direct materials are being economi-

cally used, and if the proper amount of finished product

of the desired quality, is obtained. If the proper amount

is not secured, it points out where to investigate, to

discover the cause of the discrepancy. Frequently, a

change in methods or machines greatly increases the out-

put, and saves thousands of dollars. The accurate

account kept of productive workers tells not only the

exact amount but the kind of work that each is doing.

Loafing and padding of accounts are prevented. The

management knows at all times the efficiency of each

productive employee.

A cost system is most helpful in giving accurate

knowledge of the constituent elements of overhead ex-

penses. A record is obtained of the use of

Provides a      supplies and repairs, and provides a check  
check on  
wastes.      on wasteful use, and lack of proper care in

operating machinery.

In a factory, the proper results of a good cost system

demand more than to know how to get the expense

figures. A manufacturer should know what

How to ob-      the proper expense figures should be, and how  
tain proper  
results      to cut excessive costs, without interrupting

from a cost      production or sacrificing quality. He should

system.      strive to learn if he is getting the greatest output, the

highest quality, and the best service from materials,

machines, and men. A good cost system tells him that, but it is of little service, unless it is carefully studied, and made the basis for investigation to discover where it is possible to prune costs, improve labor and factory conditions in order to obtain the greatest efficiency from materials, plant, and labor. This presupposes, that careful investigation is made, and correct costs for the different stages of production ascertained. When this is done, the cost system proves of the greatest possible service for making a comparison of actual costs with what the costs should be, and shows, exactly, where costs can be pruned.

Profits depend entirely on the existence of a margin between the cost of an article and the price obtained in the market. Financial success depends upon the presence of such a margin. A manager, unless he possess a monopoly, does not fix prices for his commodity. He has control only over the cost of producing it. To know whether or not a profit exists, at the selling price, is of the greatest importance to a manufacturer. The greater accuracy, he can obtain as to the difference, the better is he prepared to safeguard against losses. A cost system not only gives a manufacturer the difference or margin between costs and selling prices, but the exact amount of the difference. He is not in ignorance, as to whether or not, he is making profits, and he knows, every day, exactly what he is doing. Many a manufacturer with his old-fashioned, chance method knows only the state of his business, when the annual inventory is taken, and then there is always a doubt as to its accuracy.

The assistance of cost accounting in price making.

If producing different lines of goods, if it is expedient to cut the price of one, a manufacturer knows how far cutting is possible, without bringing loss that might embarrass his business. With price reductions due to keen competition, many a manufacturer has been able to continue his business at a profit by reducing his costs.

A manufacturer with a good cost system knows what he can do in price making, and at the same time, knows if the goods are produced at the least possible cost. Knowledge takes the place of guesswork and ignorance. A man knows how far price cutting can be carried without bringing ruin, and ruinous competition is prevented. Many a manufacturer has even to-day been heard to remark, that he could not at present tell, what effect the cutting of prices would have upon his business, and would be compelled to wait for results. It places such a manufacturer at a disadvantage, when competing with a man who knows his costs. Steamboats, freight cars, locomotives, etc., are usually made according to specified contract, and before contracts are given, bids are asked for the making. In making estimates, a knowledge of costs is necessary. A manufacturer knowing his costs can, under normal conditions, safely make his price, and is at a decided advantage over the man who depends alone upon his judgment. There is no manufacturer who can afford to conduct his business without a reliable cost system, and it is one of the most valuable assets in business.

A cost system when introduced is often a failure, and all cost systems are then branded as useless. The cause

Cost sys-  
tem often  
prevents  
ruinous  
competition.



of failure is either due to weakness in the system, or incompetency of clerks after introduction. For introduction, a man who knows cost-keeping principles, is able to analyze carefully local conditions, and devise proper records for obtaining necessary information. An expert accountant unless he has also had shop experience should be avoided. Make sure, that you have formulated the best system possible for your factory conditions, and place in charge competent clerks. Incompetency spoils any system. Engage a competent person to devise a proper filing and indexing system for the cost records, and place it under the charge of a competent clerk. This is the weak spot in many cost systems. Remember that a good system cannot take the place of poor management, and to get the best results, efficient management must accompany an accurate cost system. With care in installation, and a competent person in charge, a cost system will prove of valuable service to every manufacturer.

Cost systems have been studied with reference to public utilities and manufacturing plants. Greater progress towards uniform system has been made in the former than in the latter case. At present, the task of obtaining a uniform system for factories seems insolvable, due to the fact, that no two factories possess the same local conditions. Little has been done towards extending the system to mercantile establishments. A cost system suitable to the wholesale or retail store can easily be devised, and would prove of valuable service in finding leaks and wastes, and assist in reducing expenses.

## QUESTIONS

1. Costs of production may be divided into what different classes? What is the difference between direct and indirect costs?

2. What is cost accounting? Trace its evolution.

3. What are the essentials of good cost records?

4. Outline a good indexing and filing system. What is its importance?

5. How is the value of direct materials obtained? Why should materials be charged to factory at a slight increase over invoice price?

6. Outline a method for computing direct labor costs.

7. Outline four methods of diffusion of overhead expenses and criticize each. Outline the machine-hour method for diffusion of overhead factory costs.

8. What is a cost period? Why is a month usually chosen?

9. What are administration expenses? Outline a practical method for their diffusion.

10. What are selling expenses? Outline a practical method for their diffusion.

11. What local factory conditions must be studied in working out a cost system?

12. What is the difference between bookkeeping and cost accounting? What are the prerequisites for cost accounting?

13. What must be done to obtain the best results from a cost system?

14. Mention the different ways in which a good cost system assists an entrepreneur.

15. What precautions must be taken in the installation of a cost system? Give reasons for the failure of many systems.

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## CHAPTER VII

### FACTORY EFFICIENCY

CAPITAL assisted by invention has been the cause of many changes in the factory. No method, no system, guesswork as to costs, all show the crude form of early factory management. With an abundance of capital, the small factory grew into the gigantic plant. The entrance into larger markets made competition keener, and the manufacturers were driven to devise means of putting their goods on the market at lower costs. In search for cost reduction, it was not long before the factory received attention, and its careful study has proven a most fruitful field. Method, system, and knowledge are gradually taking the place of chaos and guesswork. Many general principles and much knowledge underlying the conducting, and the operation of a factory have been made accessible: The expressing of these principles into simple language, so that they will be easily understood, and of service to the average student, is the task undertaken by the writer.

The problem of factory location is a very important one in every branch of manufacturing. A good location is a valuable asset to any factory. A well-equipped and properly managed plant may fail in a poor location, while the existence of a badly managed concern may depend upon its favorable location. Several important factors have a bearing upon

factory location. The possession of one or more of these has turned many an obscure country village into a large manufacturing city. The necessary factors in each instance depend upon the character of the article manufactured. Sometimes one factor and sometimes another is the one, that should be carefully studied in choosing a place best suited for a particular manufacturing plant. The chief factors affecting location are as follows: market for sale of the product; suitable transportation facilities; nearness to raw materials; power facilities and fuel supply; available labor supply; favorable climatic conditions; suitable water supply; available capital; and local advantages and disadvantages.

**Chief  
factors  
affecting  
location.**

Every factory in order to exist must dispose of its product. Goods must be sold as well as produced, and the one is just as essential as the other. Particular attention must be paid to the available market for the product. Factories are frequently located near large consuming markets. This explains the great iron and steel industries in Illinois, the selection of the site of Gary, and the location of large farm implement factories in Chicago. Nearness to the consuming market has the advantage of giving the manufacturer an opportunity to carefully study the needs of the consumer, and give him the particular grade or style that he wishes. A little change in the grade, form, or style of goods, which better appeals to the consuming public, frequently gives a producer a decided advantage over a competitor in the market. Great distributing centers where busi-

**Market for  
product.**

**Advantages of  
nearness  
to consum-  
ing market.**

ness men meet prove good markets, and frequently are thriving manufacturing cities. Indianapolis, Kansas City, and St. Louis are good examples.

Nearness to the supply of raw materials is an important consideration in location. This is particularly true if

**Nearness to supply of raw materials.** the raw material is bulky, and of comparatively low cost, or where the cost of transportation is high. The cost of transporting a long distance would, in the case of many articles, add so much to the cost of production, that their manufacture would be unprofitable. Nearness to the great live-stock belt, accounts for the location of the large packing houses in Chicago, Kansas City, and Omaha. Iron and coal deposits in Alabama are making that state a great iron and steel manufacturing center. Flour mills are usually located near wheat belts, as in the case of the great milling centers of Portland (Oregon) and Minneapolis. The great pulp mills are situated near spruce and poplar forests. Pottery, tiling, and brick industries are located near their respective grades of clay. When raw material is only a small item in the expense of production, location is not an important factor, as in the case of steel, in the making of firearms and cutlery. The importance of nearness to raw material depends upon the proportion it is of the total expenses of production.

Every factory producing goods more or less bulky, and of relatively low price, must have cheap and adequate

**Transportation facilities.** outlet for supplies as well as for finished goods. Good facilities for transportation, and low freight rates are, with many factories, very important considerations. In some cases, the matter of a

few cents a ton in transportation means success or failure. An ideal center would be where railroads and waterways meet, as with Detroit, Buffalo, and Chicago. Manufacturers of bulky articles usually locate near waterways, so as to take advantage of low water rates. The possibility of obtaining private railway sidings is important, as it not only saves cartage, but often enables the manufacturer to load and pack his goods more carefully, and allows, with heavy goods, the use of special cranes which are not found at a station.

Proximity to power agents, as waterfalls, coal, or natural gas, is an essential factor with most factories.

To obtain cheap power caused the early grouping of factories around waterfalls, and accounts for the early impetus given to manufacturing in

**Proximity  
to power  
agents.**

New England. Many a New England town owes its existence and growth to its waterfall. As a

**Water.**

result of the use of water to generate electricity, a new interest has been taken in water power. Many plants have been erected at Niagara Falls, or in the vicinity, to take advantage of the cheap electric power generated by the use of the great cataract. Where water is not used directly or indirectly for power, fuel becomes an important item. It is so important that it is often advisable to take the raw material to the coal fields to be manufactured. To be near an

**Fuel.**

abundant fuel supply, accounts for the many factories centering around Pittsburg, and the rapid development of manufacturing in Illinois and Ohio.

A natural gas supply is more important than coal because it furnishes a cheaper fuel. Towns and cities

with an abundant supply use the fact as the greatest inducement to offer manufacturers seeking a location for factories. Power is an important cost item in every factory. Manufacturers seeking a new location should make careful study of the sources of power and its cost. A favorable location may cause a sufficient saving in power cost to assure the financial success of an undertaking. During the past decade, many manufacturers have found it profitable to move their factories to power centers.

The character of labor varies in different factories. Some factories give steady employment to both skilled and unskilled labor, while others frequently require a large amount of unskilled at short notice. In the latter case, it is absolutely necessary to be near a large city in order to draw from its large classes of unskilled labor. Frequently a particular kind of skilled labor needed is not found in the city where location seems desirable. Investigation should be made to see if such labor in sufficient numbers can be obtained. Laborers are attracted to cities, and desire to live among members of their own race, or members of the same trade. A manufacturer may choose a small town as a desirable location for a silk mill, but the question arises, can he obtain a sufficient number of silk workers to run the mill? If distant from a large city, the task is likely to be a serious one, and failure may result from lack of workmen. In every instance, close attention must be given to the character of labor, and the possibility of getting sufficient numbers to meet the demands of the factory.

Questions other than the supply of labor need con-



sideration. If the location is a large city, what is the activity of the trade-unions among the required classes of labor, is a question, that needs careful consideration. Trade-unions in many cities have become so arbitrary in their methods, as to cause constant friction between employers and employees. This friction prevents efficient work, and greatly increases the costs of production. Trade-union interference drove the Allis-Chalmers Company, as well as many other manufacturing firms, from the city of Chicago.

Activity of  
trade  
unions.

If labor can be obtained in a small town, it has many advantages over a city. Labor in cities is more or less of a transient nature, which makes it difficult to build up a permanent force. Wages are usually lower in small places, and the laborers more contented. Labor trouble is slight, as small towns do not give inducements to attract the attention of labor agitators. It is sometimes impossible to get suitable and reasonable living quarters in a small place for a large force. Many companies have been compelled to build homes for their men, and have found it in several ways a paying investment. There are several instances, where companies have even built towns for their working force, as the Pullman Company and the Maryland Steel Company in America, and Cadbury Brothers and Lever Brothers in England.

Small town  
vs.  
city labor.

Factory  
towns.

During recent years, many large manufacturing firms have moved their factories from large cities to small country towns. With factory buildings bright and cheery, surrounded by pretty flowers and well-kept lawns, with

cozy and comfortable homes for the working force, what is a greater inducement to the best skilled laborer, and to insuring his permanency? With peace of mind and contentment in the working force, what are better weapons to ward off trouble from the interference of labor agitators? Many have tried the experiment, and not a single failure has resulted. The plan is worthy of consideration by every manufacturer seeking a location for a factory, and who is anxious to secure an efficient, contented, and permanent labor force.

Favorable climatic conditions are important considerations in the manufacture of many products. Laborers can work more effectively, when the summers are not too hot, nor the winters too cold. Either extreme interferes with the efficiency of workers. Excessive summer heat is a handicap to the iron industry in Alabama, and the extreme winter cold makes the manufacturing of many products unprofitable in Winnipeg, Canada. Cotton spinning requires, during the operation, considerable moisture in the air. If this is not obtained by the humid condition of the atmosphere, steam must be forced through the spinning rooms. Favorable humidity conditions have made Fall River and New Bedford great cotton manufacturing centers. On the contrary, moisture impairs the flavor of the cured tobacco leaf. Egypt, possessing a dry climate, has become an important manufacturing center for high-grade cigars and cigarettes.

More or less water is needed in every factory, but in some industries, like paper manufacturing, water is a

very important factor. If the desired location is not near a body of fresh water, investigation should be made to make certain that sufficient water is available to meet factory demands.

Water  
supply  
important.

It is frequently necessary to rely on financiers and the investing public, for the greater part of the capital required to conduct a manufacturing enterprise. The availability of capital, it cannot be denied, depends largely upon the known ability of the entrepreneur at the head of the concern, but in many cases, location nevertheless plays its part. Men investing large sums of money in manufacturing plants, like to have the enterprises within such a distance, that inspections can occasionally be made to satisfy themselves that the plants are being efficiently operated. Many even refuse to loan money on ventures in distant or remote places. When a manufacturing company must rely largely upon borrowed capital, it is often very desirable to find a suitable location, in or near some large town or city, where this capital can be easily secured. Many a manufacturing company not widely known, and located in some distant town, finds great difficulty in obtaining capital. The question of capital is an important one, and the degree of reliance on the public, decides its importance in the location of factory.

Availability  
of capital.

Local conditions and requirements must be carefully investigated. Except in large cities, land cost is seldom a deciding factor. Some manufacturing towns give away land sites, some grant exemption from taxation for a term of years, and some add a

Land cost  
in small  
cities.

bonus as inducements for the location of new manufacturing plants. Nevertheless, in large cities, the question of land costs, assessments, and taxes requires careful consideration. Many manufacturing firms find it advantageous to locate in the suburbs of a city. The advantages arising from water supply, fire and police protection, and lower insurance rates make it very necessary that the location be within the city limits. Location is real capital, and has an important bearing on the future success of a concern.

**Land cost  
in large  
cities.**

**Advantages  
of suburb  
location.**

A good location has as important a bearing upon the success of a retail store as it has upon a factory. Where to start a store is a question which needs most careful consideration, and in many cases, the place chosen decides the success, or the failure of an undertaking. Special consideration should be given to the class of trade wanted, and a location should be selected where the desired class of customers pass. This can easily be ascertained by studying the crowd passing a certain point. Attention should be given to quality as well as to numbers. Factories in a vicinity may be the cause of a great number passing a certain point, but it is not a buying crowd. Frequently the proximity of factories proves a disadvantage, as the classes of traders desired, not wishing to be jostled by the hurrying factory employees, pass along other thoroughfares. A small steady crowd is far better than rushes once or twice a day. It is advisable to choose in a retail section, for people go to shop, where the most stores are situated.

**Location of  
a store.**

**Points to  
be con-  
sidered in  
location  
of retail  
stores.**

People ordinarily travel one side of a street more than the other, and care should be taken to choose the right side. A conspicuous location is very desirable, as it proves valuable for advertising, and is certain to draw trade. In small towns, near the post office is desirable, because people go to the office to get their mail. A location in the vicinity of other public buildings is, as a rule, undesirable. Wholesale houses of the same line of goods are usually located near one another. **Wholesale houses.** It is necessary to locate near others of the same line, because buyers are attracted to the section, where the most stores are situated. The most valued asset of any store is its location, and very often, it means either success or failure to an enterprise.

No standard plan can be given for the design or arrangement of factory buildings, because this depends upon the kind of manufacturing. The chief consideration is a study of the nature of the product, and its processes of production. **Design of factory buildings.** The size and design of buildings can then be made to insure the most economical production, in the particular case. Buildings especially suited for the manufacture of one kind of goods, may be entirely unsuited for the manufacture of another product. **The chief aim in design and arrangement of buildings.** Future growth as well as economical production should be given consideration, and no little stress should be placed upon the obtaining of an abundant supply of light. Whatever the design or arrangement of buildings or equipment, the chief aim is to obtain the passing of raw materials through the different operations to the finished product with the greatest

facility, the greatest saving of time, and the least expenditure of money, effort, and power. The success of many a large factory depends upon its buildings, and money should not be spared in obtaining a design that suits the making of the particular product.

A factory should be equipped with new and highest grade machinery, as in many cases, factory equipment means either success or failure to the manufacturer. The problem of arrangement is an important factor in every factory, and often time and money are wasted by not paying heed to it. Are there sufficient machines of the best grade to do the work required? This is an important question for every manufacturer to answer. There is a second question that needs solution. If a difference exists between the rated capacity of a machine and its actual output, what is the cause, and what should be done to increase the output to the rated capacity?

Care in attending machinery increases the efficiency of a factory. Carefully attending, and closely watching all parts for loose nuts, bolts, etc., regular cleaning, and proper oiling frequently prevent breakages. Many factories find it profitable to employ a repair man whose duties are to see that the machinery is properly tested, cleaned, and oiled, and that it, and the tools are always in the best repair.

Machinery and tools are always changing. Invention is continually bringing into existence new tools and machines, the introduction of which, may cause a more economical production. Frequently, a manufac-

turer is placed at a decided disadvantage, because his competitor has cut his cost of production, by the introduction of recently invented machines. To assure the use of the best possible machines and tools, an expert is often employed to carefully study those in use, others adapted to the same kind of work, and new inventions, to see, if there are any that will produce the goods more economically, and at a lower cost. To lead the van of competition is the ambition of every manufacturer, and to do so, he must produce his goods at the lowest possible cost, and at the same time, quality and workmanship must not suffer. An important factor in obtaining low cost, is to have the factory equipped with the best possible machinery.

**Necessity  
for a study  
of new tools  
and ma-  
chines.**

Under the old method, the workman was responsible for having ready for use or securing as required, such tools as were needed in his work, and was also required to keep them in repair. Machines and men were usually equipped with tools in constant use. The arrangement and manner of keeping were left entirely with the employee. Sometimes they were in racks, but frequently piled in confusion, so that when a particular tool was needed, it had to be searched for among many. Many tools were lost through carelessness, and many rendered useless through exposure to moisture. No record was kept, and no one knew the extent of loss.

**Tool equip-  
ment and  
repair under  
the old  
method.**

A regular place was usually provided for tools occasionally used, but provision was rarely made for the compulsory keeping of them in proper place, when not in use.

When a tool was needed, it was the practice for the workman to go on a searching tour until the desired tool was

**Great carelessness in caring for tools.** found. Often a tool would be broken, and no thought given to it until needed, and then, time would be lost in obtaining another.

Few workmen made a practice of keeping their tools in good condition, and when a tool was needed, it would often be discovered that it was dull, and the work delayed while it was sharpened. It often happened that a workman rather than take the trouble to put his tool in good condition would do the best he could with it, and leave the sharpening to some one else. A great amount of time was wasted by employees in obtaining and repairing tools, and by machines being in idleness, while tools were being sought or repaired. Expenses for tools were increased through unnecessary breakages, and by tools being stolen, misplaced, or destroyed. Additional loss was made to machinery by the use of tools in bad repair, because blunt and dull tools increase friction, and often cause unnecessary breakages. Quality of output was impaired and quantity decreased. The problem of tools is an important one in every factory, and under old methods it was invariably neglected.

Increased competition forced manufacturers to put forth every effort to lower costs of production. Every

**Necessity for modern tools.** branch of the factory was brought under investigation, but nowhere has greater development been made than in the tool department.

It is realized more than ever before, that to obtain goods of the highest quality, in the greatest quantity, and at the lowest cost, modern tools should be used. Modern



tools should not only be used, but they should always be kept in the best possible repair, and easily accessible to the workman as needed. Good workmen to produce the best results, should have good tools with which to work; if not, a less efficient man with better tools gets better results. Providing for the care and repair of tools, centers in the tool room, which is aptly described as the heart of a factory.

The tool room is a necessary and important part of every factory. It should be in a central position and easily accessible from all parts. In large fac-

The tool room, a necessary part of every factory.

tories, it may be necessary to have several tool rooms, while in a small factory, the tool department may be a part of the stock room. The tool department has three functions to perform: first, the issuing and preserving of all tools in satisfactory condition; secondly, the repairing of tools and machinery; and, thirdly, the making of tools. In storage, a place should be provided for every tool and reserved especially for it.

Functions of tool department.

Shelves, revolving stands, or whatever is most convenient and best adapted for accessibility, and ease in obtaining, should be used. The manner of

Storage.

storing depends upon the nature of the tool, and in order to assist in easily finding desired tools, the various places should be distinctly marked with kind, size, etc., of the tool contained. All tools should be delivered to employees by boys. The higher paid workmen should not be allowed to waste their time in going after tools. Tools used constantly by several workmen should be kept in sufficient numbers to meet all requests, while those only

occasionally used, need not have many duplicates, but some system should be adopted for providing ready means of indicating, when a tool is, or not in store, and if not, the workman using it. In order that an ample supply of tools is always kept on hand, a running inventory is necessary in every tool room. Tools should not be issued except on order from a factory foreman, and should, on being returned, go to a specially designated place, and be examined by an expert tool maker, who decides whether or not, they need grinding or repairing. Tools should not be restored to their places unless they are in the best state of repair, and dull tools should be daily gathered and replaced by sharpened ones.

Every worker using tools should have a special place to keep them, when not in use, and this arranged so as to give the greatest facility in handling. Boys should deliver tools promptly, and place them in their proper places, and return discarded tools to the tool room. The greatest care should be taken to see that the worker has the right tool in proper shape at the right time, as this prevents delays, and causes the saving of much waste of time. All grinding and sharpening of tools should take place either in a room adjacent to the tool room or a part of it. Grinding machines should be used that can, if necessary, sharpen tools to any shape or to any angle. Drills, wedges, etc., should be carefully tempered, properly ground, and correctly shaped, as in many kinds of work nothing adds so much to quality and capacity as tools properly ground and adjusted. Proper equipment should always be kept on hand, for

giving prompt assistance in repairing any part of the machines.

The making of tools is work usually found in large factories, but not in small. The practice is to have special equipment for the sole purpose of making tools, and this to be in charge of an expert tool maker. Some, however, route tools through the factory like other pieces of work. Every precaution should be taken to make tools of the highest grade. In making steel tools, the best grade of tool steel should be determined upon, and then made standard. Before being assigned to a place in the tool room, every tool should undergo rigid inspection and testing.

The great aim in all manufacturing is to obtain the rapid production of goods of the highest grade, and at the lowest cost. This necessitates keeping the machinery in operation, as nearly as possible, one hundred per cent of the working time. To accomplish this, too much stress cannot be placed upon obtaining the best possible supply of tools, always in the best condition, and distributing them, so that the workman always has ready at hand, the proper tool in good repair.

One of the chief items of expense in every manufacturing plant is that for materials used in the production of the finished commodities. A simple classification of materials is a division into stores, finished parts, supplies, and stock. Stores consist of materials produced outside the factory, but which must have utilities added before they become finished goods. Purchased finished parts are

The  
making of  
tools.

Chief aim  
in manu-  
facturing.

Materials.

Stores.

all goods purchased outside the shop in their finished state, and used either for assembling or repairs. Supplies include all materials not entering directly into the manufacture of a product, but which are necessary for conducting an enterprise. Stock is the finished product ready for sale or shipment. It is customary to include purchased finished parts and supplies in stores. A general division into direct and indirect is sometimes found. Direct materials are those which enter into the products themselves, and remain with them, and can actually be charged to the different commodities, while indirect consist of those materials which enter either slightly, as glue, varnish, etc., or not at all, as factory supplies, into the finished product. They cannot be charged directly to any one article, but the cost must be scattered over many.

The proper storage of materials is a very important work in every factory. Stores and stock should be kept in some specially designated place, either room, shed, or yard. Goods that are more or less valuable, and easily carried away, should be safely kept, while more bulky and less valuable goods like lumber, iron, etc., may be stored in yards or sheds.

All goods affected by exposure to weather or the elements should be protected by covers. Care should be taken to keep goods from the ground, and with many materials, to pile so that currents of air can freely circulate, as, for example, green lumber, if not properly piled, decays quickly. Goods like lime, salt, etc.,

should be kept in dry places, while others should be kept exposed to plenty of air, and sometimes to a certain amount of moisture. Extra precautions against fire should be taken with all inflammable substances.

The storeroom is just as important, and as profitable as space used for machinery. The room should be centrally located and permit easy access. **Store room.**

In a large factory, there is usually a central storeroom, and branches for many or all of the departments. In many factories, stores are scattered over

the whole place, in the greatest confusion, and in the way of workmen and machinery.

Very often, instead of promptly removing finished goods to the stock room, they are thrown together in confusion, and scattered everywhere throughout the place. This not only handicaps the workmen, and causes loss of time, but frequently causes stoppage of machinery.

**The old method of handling stores and stock.**

The foremen frequently have no idea where material is, when needed, and often men and machines are idle, while it is being found. Stores run short, causing idleness for hours, frequently for days, until goods can be obtained. Stores collected, and carefully arranged in proper places not only save time, but economize space. Frequently a larger amount, than needed, is kept on hand, and a greater amount of capital is invested than is necessary. Factories, either large or

**Evils of the old method.**

small, should reserve proper and sufficient space for stores. It is just as necessary in small as in large factories. In the former, the owner himself may take active charge, or he may assign it, as part of

**The store-room a necessity.**

the work of a trusted employee, while in the latter, a special person is assigned to take charge, and frequently it is necessary to have a large clerical force to assist him. In large factories, each department has its storeroom, containing the supplies needed for that department, each in charge of a competent person.

**System in arrangement.** The arrangement of the storeroom should be of such a nature as to allow the greatest possible dispatch in filling orders. Each article should have its own place, suited in arrangement, capacity, and location to the requirements of efficient use. Bins, shelves, racks, etc., should have easy access, and be carefully marked. Nothing pays so well as arrangement in a storeroom.

There should not only be system in the arrangement of material, but also in recording the issue, so that the quantity remaining on hand, may always be known. The latter requirement is every day more recognized, as necessary to prevent overstocking, loss of time arising from shortages, and searching for mislaid goods, and deterioration of stock from age. The greatest care should be taken in the issuing and proper recording of the receipt of goods. A competent, capable man should be placed in charge, and all goods should be issued only through him, or by his orders. Again, goods should be issued only through requisition

**Recording receipt, and issue of goods.** cards, signed by the proper factory foreman. **Permanent inventory.** Careful records should be kept of all goods received, and the goods should, as soon as possible, be distributed to their proper places. A record or permanent inventory should be kept of all receipts and issues of goods. This shows at any time the amount of each

kind of goods in stock. The simplest method is to attach a card or ticket to each stock bin or shelf, on which all receipts and issues are recorded.

The practice in many factories is to keep the permanent inventory in a loose-leaf ledger. It is not necessary to have a store or stock room, but it is advisable. A good stock system is a safeguard against waste of material, theft by employees, and losses from other causes.

**How kept?**

Through a careful study of the amount of goods used in the past, it is possible to place a maximum as well as a minimum limit, upon the quantity of goods necessary to keep on hand. These limits should be carefully watched, and the stock of goods should be kept between the two extremes. This proves a valuable safeguard

**Stock kept  
between  
maximum  
and  
minimum  
limits.**

against overstocking, and failure to carry sufficient goods to meet demand. Dispatching, which is absolutely necessary in running trains, is also of service in a factory. Every requisition slip should contain the material wanted, the department to which it is to be delivered, and the date to be delivered. A dispatching system guarantees the prompt delivery of all goods wanted, and may be extended to the systematic collecting, and storing of finished goods. In every factory, workmen and machines should always be supplied with the proper amount of the necessary materials. Dispatching assures this, and prevents loss of time and idleness from shortage of goods. Dispatching is a time saver, and cost reducer in

**Dispatch-  
ing system.**

**Importance.**

every factory, and particularly so, in the assembling room.

In one machine shop, a force of thirteen men was able to assemble twenty machines per month, having a gross value of ten thousand dollars. The introduction of a dispatching system reduced this force to six men, who made a record in assembling in one month, one hundred somewhat smaller machines, having a gross value of thirty-five thousand dollars. In all factories, it is found advantageous to have an emergency dispatching system, to rush stores to any quarter where sudden need arises.

Time can be saved, and cost lessened by using efficient facilities for moving goods. Goods are usually moved several times during the process of production. To move goods, in and about the place of storage, from storeroom to shop, or different shops, from one machine to another, frequently from one department to another, and the finished articles to the stock room are movements needed in every factory. Modern methods, whenever possible, should be used in conveying goods. In one factory, the carrying of cans was done by hand; the introduction of a conveying belt saved considerable money, and gave better and more prompt service. Space will not permit the mention of the many hundred different devices in use, for moving materials; but even to-day, conveying in many factories is carried on by obsolete methods. The expenditure of a few dollars for the introduction of a modern method would, in the course of a year, save hundreds of dollars.

Particular attention should be paid to quality of goods purchased. Careful investigation should be made to dis-



cover the grade that will result in the best product. Many large factories have finely equipped laboratories for testing the quality of goods, and experiments are constantly being carried on, to discover if different materials or grades can be more economically used. The question is to find out in any good, the quality of the part that is utilized, as in wood pulp, it is the fiber, in coal, the heat unit, in sugar cane, the sugar, etc. There are varying qualities, as well as varying amounts, of the desired quality per unit; for example, a lot of sugar cane may carry a certain amount of sugar, of a certain quality, per ton of cane; a second lot may not carry half the amount of sugar, but of the same grade, while a third may carry more sugar, but of a lower grade. What a manufacturer wishes to know is the good which contains not only the best quality, but also the greatest amount per unit of that quality. The same care should be exercised in buying repairs. A flaw in steel may not only cause loss to machinery, but additional loss through the stoppage of machinery and idleness of men. In every instance, too great attention cannot be given to the quality of goods used in every process of production.

Quality  
of goods  
purchased.

Labora-  
tories to  
determine  
quality.

From the point of view of the finished article, quality is an important consideration. Every manufacturing firm should strive to turn out goods of the highest quality, and none except these, should be allowed to leave the premises. Nothing so reacts upon a firm, as to let the consuming public learn, that goods of a low grade are allowed to go on the market. Let a manufacturer convince the public that only goods of

Quality in  
goods pro-  
duced.

the highest quality are produced, and his success is usually assured. Precautions should be taken to assure that only goods of the highest grade are produced. Competent and trustworthy inspectors should be chosen, and the raw material should be not only carefully inspected, but a separate inspection should be made during each process of production, and finally the finished article should pass most rigid tests. Quality in goods cannot be overlooked, and should receive the closest attention in buying materials and in the production of the finished product. Business failures are frequently due to neglect in carefully examining the quality of the goods purchased, and carelessness in putting goods of low quality on the market.

The economical use of materials is a matter which requires careful consideration. The ignorance of employees as to how to properly care for goods is often the cause of loss. Exposure to light, moisture, or dryness causes loss which care in handling would prevent. Many manufactures never give a thought to instructing their employees in the economical use of materials. The management should instruct all employees in the proper use of materials and insist that instructions be followed. A few lessons in planning prevent waste in the cutting out of garments, leather goods, etc. A few instructions in proper firing, and keeping boilers in proper shape frequently saves hundreds of dollars in fuel. Proper oiling and the careful use of oils will, during the course of a year, add many dollars to profits.

The use of waste products deserves some attention.

Formerly factories sent to the dumping grounds, odds and ends, which are now utilized in some form or other. Consideration should in every factory be given to waste material, in order to find, if some economical use cannot be made of it. Many large factories have greatly added to their profits by the economical use of factory wastes. Scores of plants have saved hundreds of dollars in fuel, by the expenditure of a few dollars to provide equipment for the obtaining of power by burning of sawdust, shavings, or other waste products. Every one knows of the vast sums made by the large packing houses, and oil refineries from by-products. Savings can be made in small factories, as well as large, by attention to odds and ends. Scores of devices are in use, throughout the country for the utilization of wastes, and this is an item, which in a factory cannot be overlooked, and should receive careful consideration.

Use of  
waste prod-  
ucts.

While more or less attention has of late been paid to factories, retail and wholesale stores have usually passed unnoticed. In the storing, moving, and handling of goods, what has been said of factories, applies as well to mercantile enterprises. Attention to quality is equally, if not more important, in the latter case, than in the former. Many stores take the greatest precautions to assure the handling of goods of the highest grade. When a firm's name becomes associated with goods of a high grade, it becomes a valuable business asset. Quality in goods is one of the fundamentals of business success. The problem of the economical use of materials, and the

Efficiency  
in retail  
and whole-  
sale enter-  
prises.

utilization of waste products applies to a limited extent to a mercantile enterprise. In all mercantile establishments losses can often be lessened, and even prevented by following many of the practices of efficient factories.

### QUESTIONS

1. In locating a factory, what factors must be considered? Give the importance of each.

2. What are the chief considerations in the location of a retail or a wholesale establishment?

3. What phases of the labor problem must be considered before deciding upon a factory location?

4. What advantages has a suburban over a country location?

5. What important points must be considered in designing buildings for a factory?

6. What savings are effected by the proper arrangement of factory equipment?

7. What method do entrepreneurs pursue in order to keep their factories always equipped with the most efficient machines and tools?

8. Compare the old method of caring for, and providing tools, with the modern. What savings are effected by the latter?

9. Why is the tool room so often described as the heart of the factory? What are its important functions?

10. Plan a system for storage of tools and also one for keeping track of tools as to whether they are in store, or in use.

11. What precautions must be taken in the storage of materials? Mention several ways in which waste may be prevented by proper storing.

12. Compare the old methods of handling stores, while in workshop, with the modern.

13. In what way may costs be lowered by paying attention to quality of goods purchased? From the point of view of the finished produce, why is quality an essential of success?

14. What is meant by the economical use of materials? Mention several ways of attaining it.

15. How may profits be increased by paying attention to waste products? Mention several ways of utilizing wastes.

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## CHAPTER VIII

### EFFICIENT BUSINESS METHODS

THE shipping of goods in every factory requires careful attention and consideration. The shipping department

**The shipping department.** is often badly neglected, and large losses annually occur through lack of system. The shipping clerk or person in charge of outgoing goods is an important member of every office staff. One

**The shipping clerk.** person, in small factories, usually has charge of receiving and shipping goods, but in large plants, it takes a large number of employees under a chief clerk to look after the shipping.

All finished products, with the exception of large, bulky articles, should go, on completion, to the stock room to await orders for shipment. No goods should leave the factory unless they go through the shipping room,

**Inspectors.** or are shipped on instructions from the shipping clerk. An order, when filled, should be inspected by the proper official, who verifies to the shipping clerk that only articles ordered are being shipped, and that they are goods of high standard, and what were ordered by the customer. Inspectors should

**Duties.** be trustworthy employees. Every inspection should be carefully made ; if so, a company will be saved much expense in shipping goods not ordered or

of a different grade. The goods, after inspection, should be turned over to the shipping clerk to be packed under his direction, and shipped under his instructions.

Many factories lose annually hundreds of dollars by not having a proper shipping system. Carelessness allows goods to leave the factory without invoices, and this usually means absolute loss. Goods are frequently allowed to go the wrong route, and sometimes to the wrong destination. It should be an absolute rule, that no goods be allowed to leave the factory without careful inspection, and proper shipping instructions.

Shipping  
system  
necessary.

The question of packing and routing goods is of the utmost importance. It is a special study of the shipping clerk, but in large factories, the work is usually assigned to experts. Railroads classify goods and fix rates according to classifications. Frequently a little different crating or packing, puts goods in another classification, and at a lower rate. A light crate or the removal of projecting parts frequently allows an article to go at a lower rate. Sometimes it is cheaper to ship parts and assemble at destination. Care should be taken to properly describe goods, as damaged parts shipped as scrap pay a lesser rate. The classification affecting the goods of a particular factory should be carefully studied, and the goods packed so as to obtain the lowest rates. Whenever possible, advantage should be taken of the lower rates for car lots. The minimum weight for a carload should be ascertained over all railroads over which goods are shipped. A consignment of minimum carload weight can be shipped

Packing and  
routing.

Shipping by  
carload.

at a saving as a carload than less than carload. Roads vary in their limit of minimum carload weights, so goods may be shipped part way at carload rates, and to destination at less than carload rates, or *vice versa*. Many consignments to neighboring towns may make a carload, so it will pay to ship as carload to a central point and then reship to destination. In the shipping of a large consignment of goods to Omaha, several dollars are saved by shipping via New Orleans rather than directly by rail.

**Water com-** Water competition has a great bearing on  
**petition.** rates, and whenever possible, advantage should be taken of it. An expert on routing saves a large factory hundreds of dollars annually, and proper routing means a saving even to a small factory, yet this is a part of factory management which has been very much neglected.

Liability and expense can often be saved by selling goods, "free on board cars at factory, freight allowed to destination." Transportation charges are deducted by consignee from his invoice, and amounts in costs to the same thing as shipping the goods prepaid. But it is often of great advantage to the consignor, as it relieves him from liability for delays or damages, after the goods are in the transportation company's possession.

**Method of shipping to relieve shipper from liability.** In no line of business is there greater waste than in factories. Time, energy, and materials are wasted in an infinite number of ways. Waste is the difference between what is, and what should be. In raw materials, there are frequent wastes in buying and using. In buying, waste is the difference between what



it should cost to secure the raw material, which is determined by scientific test to be best adapted to the needs of producing the best results, and what is actually paid. Thousands of dollars are annually wasted through carelessness in buying coal. In place of carefully testing and determining the grade of coal, that gives the greatest number of heat units per ton, and making certain that such is obtained, it is customary, to order without any attention to quality. Poor quality is discovered only through complaints of firemen or increased coal costs. Waste is most common in the use of materials. It is the difference between what should be necessary to produce a given product under most favorable conditions, and what is actually used. Under old methods, it was absolutely impossible to discover the extent of waste in buying or using materials. Its presence, if detected, was largely a matter of accident, and it was never given serious consideration. Modern methods are more scientific. Many manufacturers pay particular attention to the determining and obtaining of materials, not only of the best quality, but those best adapted for the making of the desired product. The amount of materials that should be used in the making of a certain product is determined by careful investigation. This decides not only the existence, but the extent of waste. It also gives the basis for a rigid investigation, which, if properly and scientifically conducted, results in the elimination of much waste and the saving of many dollars.

Waste  
in buying  
materials.

Waste in  
the use of  
materials.

Modern  
vs. old  
methods in  
discovering  
waste.

Time is an important element in production. More

wastes occur through lost time than from any other source. Lost time means a decrease in the output and

**Waste of time.** an increase in the expenses of production.

Wasted time is the difference between the time taken to produce an article under the most favorable condition, and the time actually consumed.

**Various ways of wasting time.** Time is lost in many ways, some of the chief of which are: waiting for supplies or materials;

waiting for other parts of the plant; breakdowns; not starting machines on time; stopping before the end of the working day; not running machines to capacity; running machines in bad repair; using tools in bad repair; not using best methods for production of goods; soldiering on the part of the workmen. By keeping the equipment always in the best repair, by running machines to full capacity and to the full extent of the working day, by efficient handling of all materials and supplies, by efficient methods and the help of an efficient working force, much of the wasted time of old factories is eliminated.

There is much waste in the common operations of industry through lost energies. The best method for

**Waste of energy.** performing a piece of work, and obtaining the desired result with the least expenditure of effort, should be discovered by careful study and experimentation.

Train the men in this method, and make

**How to prevent?** certain of its adoption. This is a decided contrast to the old method of allowing every

employee to use his own method of doing a piece of work, and giving no thought as to whether or not unnecessary movements were taken. The problem of lowering costs

through elimination of waste energy is of recent date. The greatest factory experts in America and in other countries have accomplished much in this field, and the next few years promise still greater developments. Small wastes present the hardest problems in the management of stores as well as factories. The detection of waste and its elimination is a subject that deserves the closest attention of every entrepreneur. The closest scrutiny and investigation should be constantly carried on in every branch of a factory. The aim in every factory should be to produce with the greatest economy in the use of materials, and with the least possible waste of energy or loss of time to either man or machine.

The de-  
tection of  
waste re-  
quires close  
attention.

Inventory, or finding the amount and value of goods on hand, confronts a business man at least once a year. Inventory taking in a mercantile establishment is comparatively simple as compared with that in a large factory. In the former case, the stock consists of goods with a definite market value, while in the latter, a large amount consists of partly finished product. In a factory, it is easy enough to find the value of raw material and finished goods, but frequently trouble arises with partly finished product. A reliable cost system permits the valuation of the latter with little difficulty, but without one, it depends usually on the judgment of the foremen of the various departments, and is more or less a matter of guess. If an appraisal of factory and equipment is required, a more difficult task of finding the present value of all parts arises.

Inventory.

Mercantile  
stores vs.  
factories.

The value of an inventory depends largely upon its accuracy. The greatest care should be exercised to assure exactness in counting, measuring, weighing, and listing the amounts. Only reliable and trustworthy clerks should be chosen for the task. Every one engaged in taking the inventory should be impressed with the fact that accuracy is the watchword.

**Value of an inventory depends on its accuracy.**

The old method of going around with pencil and paper, listing the articles and placing a more or less random valuation on them is past. Such an inventory is of little value, as it is filled with inaccuracies. In place of pieces of white paper, printed tags are used. They are numbered, and contain places for name of article, amount on hand, size, condition, place, price, and a space for the initials of helper or checker. In factories, three different colored tags are generally used, one for raw materials, one for partly finished goods, and the other for finished product.

**Old method.**

The whole establishment is divided into divisions. Sometimes a department represents one division and sometimes two or more. A checker and several helpers are assigned to each division and the head of the department assists whenever necessary. Checkers and helpers are usually chosen some time before inventory starts, and during the interval receive instructions as to the proper use of the tags, proper method to inspect, weigh, count, and measure the goods, and in giving proper description on the tags.

**Preparations for inventory.**

The first stage of an inventory is to find the amount of goods on hand. The prices are later added in the office

and there valuation is made. When a stock system is in operation, an inventory is for the purpose of finding if the stock records are correct, and should be as carefully taken as when no stock system exists. If any differences are found, the stock records should be made correct. Many manufacturers examine only lots here and there for the purpose of comparison with the stock records, and do not make a careful examination.

**Inventory where a stock system exists.**

The checker is charged with all cards given him and every one must later be accounted for. He records the information given by the helpers on each card, and after the count, fastens the tag to the particular lot or piece. This procedure continues until everything has been counted and tagged. Business continues, and when it is necessary to remove goods from a lot tagged, the employee notes on the back of the tag the amount taken. But while inventory is in progress, no goods should be removed from one department to another. Extreme care should be taken in listing goods in process of manufacture, so as to show the last operation. This is very important in valuing the product, and if not done, inaccurate results will follow. It is advisable to leave a space on the tags for the stage of production of partly finished goods, and the checker should take pains to fill out correctly. In a few cases, it may not be considered necessary to weigh or count the material, as an estimate is considered sufficient; but the head of the department and the checker should be agreed upon the amount. The tag should be marked "Estimate" and

**Inventory in progress.**

**Proper listing of goods in process of manufacture.**

signed by the head of the department, and the checker.

After counting has been completed, and all goods are tagged, a second force of men is sent through to collect the tags. These act as inspectors, and at random test the accuracy of the tags, and carefully inspect the shelves, bins, etc., to see if any materials have not been counted. While this process is in operation, many factories close, but such is rarely the case with mercantile establishments.

The work is now transferred to the office and is placed in charge of a force of inventory clerks under a competent chief. The cards are carefully inspected to see that none are missing. Various arrangements of cards are usually made to assist in valuation. The cards having been arranged, the inventory is ready for pricing.

All staple materials, whether raw materials or finished goods, should be priced at market value. Care should be taken in pricing damaged goods, and goods although new, yet for which, there is no demand. The latter class includes all goods out of fashion, and often although as good as new, yet they are practically valueless, and the only suitable place for them is the scrap heap. In order not to mislead, sound judgment should be exercised in the pricing of all goods.

Buildings, machinery, and other equipment are valued at their original cost, less a certain sum for depreciation. This is based upon the number of years the good has been in service, and its

probable future life. In estimating future life, it should be borne in mind, that it depends to a certain extent upon progress of invention. A new invention has often consigned to the scrap heap, a machine that otherwise would have had many more years of service. The estimates in each case should be made by shop experts, and should always be conservative.

The total value of the various goods is obtained, and the amounts entered on a summary sheet. The cards or tags form an itemized inventory of all goods on hand, and should be filed away for future reference. The inventory not only furnishes an accurate state of business, but records for careful study. It shows whether or not departments are over or under stocked. It draws the attention of the entrepreneur to the presence of undesirable stock, which should be sold at any price, and its place occupied by salable goods. Without a stock system, an inventory is of invaluable service, and with it, it tests the accuracy of the stock records.

**Tags an  
itemized  
inventory.**

**Importance  
of an in-  
ventory.**

One of the important changes introduced in modern industry has been the adoption of standards of various kinds. A standard is that by which size, form, quantity, quality, or method is fixed or regulated. Standardization is the setting up and the rigidly following such standards. Manufacturers who produce in large quantities for the market find it absolutely necessary to adopt standard sizes, weights, shapes, and sometimes standard quality for their products. In introducing standardized products, the operations are reduced to

**Standard-  
ization.**

**It is the  
starting  
point for  
cheaper  
production.**

a routine and as a result, the repetition allows cheaper production. Standardization is therefore the starting point in producing goods cheaply, and in large quantities for a competitive market.

In making standardized products, it is possible and advantageous to spend large sums for special machinery and equipment, which not only reduces the cost of production, but greatly increases its rapidity. The sizes, shapes, and weights which are best adapted for general use are selected as standard, and these are turned out in large quantities. Frequently, where quick delivery is essential, it allows the filling of an urgent demand. The Egyptian government desired at short notice, the erection of a bridge from Atbara to La Salle. Thirty-eight English firms competed, but none could make delivery on time. The contract was given to an American company, and within twenty-seven days after its receipt, the bridge was ready for shipment. The task was possible because the bridge construction parts were standardized.

The determination of a standard quality in product, and taking rigid measures to prevent any goods below the standard from going on the market, gives a decided advantage to any manufacturing firm. The consuming public soon learns of the high quality of goods, and demands them in preference to others. There is no asset so valuable to any firm as the confidence of the people in the goods that it produces, and nothing wins it more quickly than the constant selling of goods of the highest grade. This is made possible by the adoption of a high standard of quality and care that it is rigidly enforced.

**Advantages  
of standard-  
ized prod-  
ucts.**

**Standard  
quality: its  
importance.**



As important as standardization is in the product and its quality, it is of equal importance in a factory. There should be standard machines, standard tools, **Standard-ization necessary in the factory.** standard methods of using and caring for them, and, in fact, standard methods for every operation. Few factories have reached this stage, but great advancement has been made during the last few years, and the time is not far distant when the larger portion of the factories will be highly standardized.

The adoption of standard tools and machines should be made only after careful investigation. Experts should closely examine the details of the work, and decide upon shapes, sizes, and kinds of machines **Standard tools and machines.** and tools most conducive to efficient production. The adoption of standards does not mean the doing away with change. Experts should at all times carefully study the standard tools and machines as well as others, and if another tool or machine, shape or size, is better suited to the operation, the former standard should be discarded and the new one adopted. Changes should not take place except after careful investigation by experts, and their decision that the new standard is advantageous and advisable.

The adoption of standards for methods of doing work and using machines is daily attracting more attention. The method adopted as standard should be **Standard methods.** that decided upon by men who are best qualified to pass upon the subject. The standard, when adopted, should be rigidly enforced and its use the only one allowed in a factory. Experts should carefully study the standards, and as soon as a better method

is discovered, the old standard should be discarded for the new. Care should be exercised and proof ascertained that the new method is an improvement over the old before a change is made.

Standards should be the result of careful investigation and should represent the best possible. They should be obtainable under ordinary conditions as well as practical. Standardization stands for one kind of equipment, uniform methods and materials, which means a great source of economy. The tendency of the modern industrial world is toward standardization in product and every part of its production.

Every manufacturer knows that buildings and equipment cannot be used without deterioration. Deterioration, if not provided for, in time impairs the earning power of any factory, and eventually forces it into bankruptcy. If the working efficiency of a factory is not to decrease, its buildings and equipment should perpetuate themselves by repairs, improvements, and replacement. While buildings and equipment are passing from the state of newness and excellence to age and uselessness, a sum should be set aside to provide for replacement when the day of uselessness arrives. This is done by making a yearly allowance for depreciation. Depreciation is a decrease in the value of buildings and equipment due to wear and tear, effect of the elements, course of trade, or new inventions. Some form of depreciation is found in every factory. Few things require more careful attention and sounder judgment, than the fixing

**Modern  
tendency  
towards  
standard-  
ization.**

**Every busi-  
ness enter-  
prise sub-  
ject to de-  
terioration.**

**Deprecia-  
tion.**

of the annual amount of depreciation to be charged to the general expense of a factory. The proper accounting of depreciation is absolutely necessary in every plant, yet in many, little attention is paid to it. Distinction should be made between maintenance and depreciation. The terms are essentially different, yet many look upon them as synonymous. Maintenance is the amount necessary for keeping a plant and its equipment in the best state of repair. The gradual wearing away due to age cannot be remedied by repairs, nor can repairs prevent machinery from becoming obsolete. No matter how great care is taken to maintain a plant in the best possible condition, there is a gradual and an inevitable depreciation. In a new plant, this may not at first be noticeable, but it is nevertheless present, and the loss it incurs, should be provided for from the first. Proper maintenance increases the durability and life of a machine or building and should be given due consideration in estimating the annual charge due to depreciation.

**Maintenance.**

**Depreciation present in every factory.**

The durability and life of equipment depends in a great measure upon its use. Nothing is so important in determining depreciation as a careful consideration of the conditions governing the use of the particular machine or appliance. The constant keeping of every part of an equipment in best repair adds greatly to the length of service. A loose shaft, nut, or bolt may, in a short time, do more damage than would result from six months' or a year's use. Keeping all parts free from dust and properly lubricated with the best grade of oil adds to the durability of any equipment.

**Proper care adds to life of equipment.**

Extreme care should be taken in the installation of all machinery. This is one of the important points to be considered in estimating the life of any machine. Careful installation is particularly necessary wherever a machine is run at great velocity, or subject to shocks, concussions or constant strain. The framework should be of sufficient weight to withstand as much of the strain as possible; if not, the constant strain will affect the life of the machine. Piece work gives greater strain and greater wear and tear than time work. The number of hours of work affects the durability of any machine. Machines kept at utmost capacity are under greater strain than those which are not, and this affects their durability.

No factory is free from its machinery becoming obsolete. A machine is useless when a more efficient one is invented, which does not make it economical to continue the use of the old machine. Inventions in machinery are constantly taking place. No manufacturer can tell when an invention will force him to discard his old and install more improved machines in order to keep pace with competition. A machine which under ordinary conditions would have a life of fifteen years might, at the end of three, be assigned to the scrap heap, as a result of a new invention. No manufacturer can tell when his machines will become obsolete, as no one can foretell what the future will bring forth. Some machines have a greater tendency towards obsolescence than others, because invention works more rapidly in some lines of industry than others. In some industries, few improve-

ments have during the last few years taken place, while in others many machines had been in use only a short time when as a result of new inventions they had to be replaced by more improved machines. The tendency towards obsolescence on account of new inventions should receive careful consideration in fixing depreciation.

A second form of obsolescence is found in many lines of production. Machinery may become obsolete not as a result of new inventions, but because there is no longer sale for the goods for which it is used in producing. This applies more particularly to machinery used in making goods affected by changes in style and fashion. A machine that can be used only in making an article of a particular style should necessarily have a high rate of depreciation, because its assignment to scrap depends upon the change in the whims of the people. Manufacturers should be very careful to provide for contingencies of the future as well as for wear and tear.

**Obsolescence through no demand for machinery.**

Depreciation for buildings should be considered as well as for machinery and equipment. Many consider buildings kept in good repair as permanent. Such is not true, because at the end of some period in the future, perhaps long, or it may be short, a building used for industrial purposes becomes unsuitable for the original use, and when this time comes, it is greatly decreased in value and often is valueless. The life of a building depends upon many conditions of which the most important are: nature of the building; character of its construction; conditions under which it is used; its

**Depreciation of buildings.**

**Conditions governing life of a building.**

care and protection; and changes in methods of production.

Brick and stone buildings have a life from three to four times that of frame or wooden structures. The quality of materials used as well as the care exercised in construction are important factors in durability. A building poorly constructed and made of poor materials requires a depreciation two or three times as great as one properly built of the best quality materials. Buildings used as foundries or smithies, as well as those which bear the strain of shafting, heavy cranes, machinery moving at high speed, and concussions have usually comparatively short lives. A very necessary factor in determining the life of any building is promptness in repairing. Carelessness in not promptly repairing the roof of a building may take ten years off its period of usefulness. Occasional painting helps to preserve both wood and iron. Repairing a broken sill, beam, or rafter saves other parts of a building from extra strain. Changes in methods of production may take away the usefulness of a building for its original purpose. A few years ago, the erection of large tanneries made it unprofitable for small tanneries to operate, and hundreds of buildings, not being suitable for other purposes, became almost valueless.

Formerly manufacturers paid little heed to depreciation. The plants were maintained in good condition, and no sum was set aside for loss of capital due to wear and tear. To-day, more attention is paid to it, and its importance as an item of cost is

recognized. At first, the estimating of depreciation was merely a matter of guess. An arbitrary sum was set aside to cover wear and tear, and obsolescence. Later, it was recognized that depreciation could only be determined by estimating the useful life of buildings and equipment, and their value at the end of the period, and spreading the difference between the original cost and the scrap value, over the period of life. Scrap value varies in amount. Some machines contain many pounds of valuable metal, while others, it will not pay to cart away. Some may be repaired and sold for other purposes, while others have no value except for the metal they contain. The same is true regarding buildings. Some may be remodeled and used for other purposes, while others represent only an expense for removal.

Buildings and machines vary in the length of their lives of usefulness. The life of the same kind of machines varies in two factories, because in no two factories are the local conditions exactly the same. No standard life can be given for any machine or building, but each case must be judged on its merits, and the estimate of life of service be made by one able not only to judge local conditions, but also the possibility of obsolescence.

No standard life can be given for either machines or buildings.

Many different ways have been devised for charging expense with the proper amount of depreciation. The simplest, and the one most commonly used, is to divide the difference between the original cost of the machine or building, and its scrap value, by the estimated number of years of service. The quotient is the annual amount to charge to expense. A

Methods for charging depreciation.

second method is to provide a sinking fund which, at the expiration of the life of plant or building, provides for its replacement. A third is one that to-day is attracting special attention. It is to charge a high rate when a machine or building is new, and then gradually reduce it. Several plans have been devised for doing this, but Cole's method seems the most satisfactory. He first estimates the life of the machine or building. Then he takes the difference between the cost and scrap, and depreciates each year, a fraction comprising the number of years of life as a numerator, and the sum of the years as a denominator. If the life of a machine is seven years, add, 7, 6, 5, 4, 3, 2, 1, or 28; for the first year, the depreciation would be  $\frac{7}{28}$ , for the second  $\frac{6}{28}$ , and for the last  $\frac{1}{28}$ .

Buildings are often taken as a whole and a certain yearly depreciation fixed, but they vary in their depreciation, and should be considered separately. The same is also true of machines. A complete inventory should be kept of all buildings and equipment. A convenient way is to have a card for each building and machine. This card should show the cost of the building or machine, the date of erection or installation, years of life, use and previous yearly depreciation. At the end of each year, the depreciation for the year should be noted. The cards carefully indexed should at any time show the present value of any building or machine. The depreciation burden would be distributed to those parts where it rightly belongs.

Small tools and small articles of equipment cannot be



treated separately like machines. They usually wear out quickly, and have short lives, frequently not more than three or four days. Two methods are used in their case. The first is to value every year; the second is to maintain and renew as required, and value only occasionally. The first method is more accurate and preferable.

Charging depreciation for small tools.

Depreciation is present in every factory. It is a necessary expense of production, and as such, should be accounted for and properly charged. In every business, depreciation is a factor which must receive its due amount of attention. It is an expense item which should not be neglected, and to charge properly requires careful thought and sound judgment.

Depreciation should be properly charged.

### QUESTIONS

1. What are the duties of a shipping clerk? Why is his position important?
2. What is routing? How can expenses be reduced through routing?
3. What is waste? Name different ways in which waste occurs.
4. Name the different ways of wasting time. How may they be eliminated?
5. What is waste of energy? How may it be prevented?
6. What is an inventory? Upon what does its importance depend?
7. Outline a practical system for inventory taking.
8. What precautions should be taken in valuing stock in inventory? How are buildings and machinery appraised?
9. Why is standardization said to be the starting point for cheaper production?

10. What are the advantages arising from (1) standard products; (2) standard quality; (3) standard machines and tools; (4) standard methods?

11. What is depreciation? How does it differ from maintenance?

12. What are the conditions affecting the length of service of buildings and materials?

13. What is obsolescence? Why is it greater in some industries than in others?

14. What are the different methods for charging depreciation? What is the Cole method?

15. Why is it essential to distribute depreciation burden to where it belongs? Give methods for charging depreciation expense for small tools.

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## CHAPTER IX

### LABOR EFFICIENCY

AMERICAN industries have during the past twenty-five years developed very rapidly, and their character has undergone many changes. Increased competition has made necessary the large producing plant, and specialization has become in industry the watchword. Machinery, materials, and methods have been carefully studied, but labor has long passed unnoticed. It is only recently that employers recognized the importance of the human factor in the making and marketing of goods. The human head and hands which operate the machines are important factors in our industrial system. The study of the employee to understand the various elements that affect his working power is a most important and serious problem for a business man. The employer should understand that he has to deal with the workman as he is, and that dealing with theories and ideals can never result in efficiency. The workman should thoroughly know his machine to obtain the best results from its working. This has been recognized since the introduction of machinery, but the employer has not grasped the necessity of understanding and knowing his workman in order to obtain the best results from

Specialization at present, the watchword.

Labor element long neglected.

his labor. It is surprising how long the employer has overlooked this essential. Until the dawn of the twentieth century, the average employer in his dealings with his working force was heartless and cruel. He treated them rather as inanimate objects, than as human beings with feelings. The laborer was looked upon as part of the factory equipment, rather than a man with rights and privileges. Present labor conditions, unions, and employers' associations are the natural and necessary result of methods of handling workmen.

The small factory which a few years ago was the prevailing type in our industrial system gave way under competition to the large plant, employing thousands of workmen. Invention kept pace with industrial growth, and more complicated machines took the place of the rather simple ones of the small factory. The large plant with its intricate machinery demanded expert machine hands and the result was a rapidly diminishing supply of properly trained men. A few years ago, it looked as though the scarcity of skilled workmen would be a serious drawback to our industrial development. Necessity drove employers individually to make provision to provide for and maintain a supply of skilled workmen. The result was a revival of the apprenticeship system, but one differing in every detail from that which dominated industry for several hundred years.

The old system of apprenticeship served its purpose under the domestic system, but the rapid changes in industrial conditions under the factory system soon made

it antiquated. A boy was apprenticed to a journeyman until he became a skilled mechanic. The mechanic skilled in all parts of a trade has been supplanted by the specialist skilled in one operation. Education did not keep pace with industrial progress, and employers were forced to train their own men. To-day many factory apprenticeship systems are in practice. Two types may be given. The one is where school instruction is given during working hours, and the other where it is given in evening school. The various systems differ in detail, but the general principles of putting the apprentice under a competent instructor, whose duty it is to see that proper instruction is given, that the apprentice is advanced from one kind of work to another, and that his mental development keeps pace with his acquired skill, are the same for all.

**Principles  
of new  
apprentice-  
ship.**

Many technical schools have recently been established for the purpose of training skilled mechanics. Experience has proven that they cannot satisfactorily take the place of the factory apprenticeship schools. Employers admit that trade technical schools give good training and are valuable, but they declare that they cannot give the training under actual working conditions which the factory school gives. The graduate of a trade school is given credit for his work, and his apprenticeship is shortened. The factory apprenticeship school is increasing in favor, and is destined to play an important part in our industrial development. The large factory demands a number of skilled mechanics, and the best means to obtain a supply

**Technical  
vs. fac-  
tory appren-  
ticeship  
schools.**

and maintain it, seems to be, for employers to train their own men.

Shop instruction is by no means philanthropic in its nature. It is good business, and business motives guide employers in the installation of factory schools. The schools supply a better class of workmen, and permanency in employment is greatly strengthened. Personal contact with instructors and training in the shop give a friendly attitude towards employers, environment, and working conditions. It arouses personal interest and enthusiasm, and assists in obtaining hearty coöperation in the work. The spirit of coöperation which it arouses is a most valuable asset, and one which in itself fully repays the cost of training.

The nineteenth century was characterized by a lack of interest of employers in their employees. There were exceptions where employees were treated as though they were human, but the average employer looked upon his laboring force, as part of his factory equipment, and had as much feeling for the laborer as he had for a cog in one of his machines. The twentieth century awakened in the employer a new interest. He realized that an important factor in production and distribution is the human factor, and this aroused an interest in the human element in industry. It is not charity or philanthropy, but pure business. Skill rather than brawn and muscle is needed, and to obtain skilled men with brains, and to get them to do their best work, they should be treated as human beings. America, with its splendid

**Reward of  
factory in-  
struction.**

**Better  
treatment  
of labor  
caused by  
business  
motives.**

educational system, and the general high intelligence of the skilled mechanic, is no place to treat men like bits of machinery.

The handling of men is a problem which tests the ability of the employer, and is one which is a great factor in the success of an enterprise. Two methods are in practice for the handling of men. The one <sup>Driving</sup> ~~vs. leading.~~ typical of the last century is driving, while the other, which we trust will be typical of the twentieth, is leading. The ignorant workman may be <sup>Effects of</sup> ~~driven to his task, but with the skilled me-~~ <sup>driving.</sup> chanic driving is a failure. Driving produces discontent, fosters antagonism, and banishes loyalty and enthusiasm. To understand the workman is a most serious problem for the employer. The employer should be a close student of human nature, and should know his men as they are, and not as they are supposed to be. Business building requires the coöperation of employers and employees, and this demands that the employee be led through self-interest. The question of arousing self-interest is the great problem of the future, and its successful solution assures enthusiasm, coöperation, and success, the goals of industrial activity.

A workman to do his best work should have his mind on what he is doing. This freedom of mind arises largely from contentment. Contentment has <sup>Causes of</sup> ~~a great influence upon the quality of work as~~ <sup>inefficiency.</sup> well as upon the output. Working amidst gloomy and dismal surroundings, with improper equipment, in fear of losing position, or under constant nagging by a rough and surly boss, causes men to have their thoughts on

everything except their work, and their interests elsewhere than on what they are doing. The worst frame of mind for good work is one of continual brooding over being underpaid. In how many enterprises, do we find one or more of these conditions prevailing? How many enterprises have failed as a result of their presence? Employers wonder why they do not succeed. They have well-equipped factories, modern machinery, but there is lacking the contented workman whose interests are centered with those of the employer in the success of the undertaking.

The contented employee has a positive money value. Contentment binds employer and employee closely together, and leads to their coöperation for the success of the enterprise. Employers as a body are at present recognizing the value of contentment in the working force. Workmen have benefited by various improvements made largely on the initiative of employers. These are all business investments, and the contented mind obtained, more than repays in quality of work and output. Efficiency is a great factor working towards the lessening of costs of production, but it cannot exist without contentment in the working force.

The industrial struggle is one for profits, and the employer who can produce at the lowest cost wins. Employers have learned that a very important factor in lowering costs is permanence in the laboring force. The one basic principle underlying efficiency is continuity in service. Nothing so works against efficiency as continuous change in the

**Contentment a factor in efficiency.**

**Experimenting costly.**



working force. Men, when they know that they are likely to be discharged at any moment, do not have the interests of the enterprise at heart, and do not give their best service. Experimenting with men is very costly, and the less an employer is compelled to experiment, the greater are his chances of success. During the past century, machines were carefully nurtured and preserved, but little attention was paid to keeping men in the organization. The employer failed to realize the loss resulting from constant hiring and dismissing. A large manufacturer declares that for every dollar paid a new employee for the first few weeks, he is out two for breaking him in. Another states that the breaking in of a new employee to a position of any importance costs two months of his time before he is seasoned.

Employers have recently recognized the great importance of holding men in their organization. This is found expressed in the various profit-sharing plans, welfare movements, and pension systems of many railroads and industrial plants. These are simply inducements to attract the best labor and hold it. All money spent in these various schemes is good investment, and the return coming from continuity of service, peace of mind, and coöperation repays the employer a hundred fold. If an employer finds that his men are leaving, something is wrong, and an investigation should at once be made. If there is a reason for a man leaving, it should be found out as soon as possible, because it will likely drive away his successor. No efficient work-

**Importance  
of perma-  
nency in  
service.**

**Induce-  
ments to  
hold men,  
good in-  
vestments.**

man should be allowed to leave, if reasonable measures will keep him. In a laboring force, continuity of service is the ideal, and employers should bear in mind that permanency and efficiency go hand in hand.

A method of equal importance with permanency, in working toward efficiency, is the policy of making

**Promotion from the ranks increases efficiency.** promotions from the ranks. Hope for the future is the chief incentive for giving best efforts to the work, and the hope which appeals most strongly, and which gives loyalty and

self-interest is advancement. Every organization should make provision for filling any vacancy which may occur from its own ranks, and the laboring force should be given to understand that vacancies will be filled from their numbers. Promotion should not be based upon seniority, but wholly upon ability. Preference to seniority is only justified, when the senior in service is of equal ability and efficiency with others qualified for promotion to a vacancy. The assurance that promotion will

**Seniority, when it should be recognized.** be made from the ranks fosters ambition, gives hope of advancement, and greater satisfaction with present wages. It encourages

employees in their work and arouses loyalty and coöperation. Promotion from the ranks has been adopted by many large railroads and industrial enterprises. Marshall Field and Company has only two managers who were not promoted from the ranks. The Pennsylvania Railroad Company rigidly follows this policy and one hundred and fifty of its one hundred and sixty chief officials started in humble positions. Mr. P. R. Butler, a leading manufacturer, will not put an outsider

in a responsible position. The importance of the policy is becoming more recognized, and its extension is spreading to all fields of industrial activity.

Health is one of the first steps toward efficiency, and modern industry demands workmen of good physique and health. Work requiring strength, dex- **Efficiency demands healthy workmen.**

terity, or brain power cannot be efficiently performed in the absence of good health. The employer of the old school regarded as useless expense, any outlay to improve the conditions under which his employees worked, while the progressive employer of to-day, recognizes that money spent to maintain sanitary and healthful conditions is a profitable investment. It is recognized that whatever promotes and assures health increases the efficiency of the working force. Efficiency demands that work be performed under the best sanitary conditions and amidst the most healthful environments.

Sickness is one of the greatest enemies of the employer, and its prevention is an important question which demands careful consideration. Every cause, whether in factory or out, that leads to ill-health demands close investigation.

Light, heat, atmospheric conditions, drinking water, nutrition, sanitary conditions in workshop or home influence health. Home as well as factory conditions should be studied. Lack of proper nourishment, bad housing, and of proper sanitation in the home prevents physical efficiency and intellectual keenness. Many cases of illness would be impossible if the workman were not devitalized by mal-

**Interest of the employer extends to the homes of his employees.**

nutrition or lack of proper home surroundings. The employer should extend his care from the workshop to the homes of his employees. Every dollar so spent is an investment which will give good returns.

Proper medical inspection for new employees should be rigidly enforced. Many slight ailments may be found which with care can be easily remedied.

**Medical  
care and  
inspection  
a necessity  
in factory  
and home.**

All employees should go under medical inspection at least once or twice a year. Employers with many employees find it profitable to have nurses and a doctor, not only for their workmen, but also for their families. Sickness in the family detracts attention from work. Nurses should visit the homes of employees to see if there exists wholesome and sanitary surroundings, and if proper nourishing food is obtained. Frequently sickness may be prevented by giving advice to well employees or immediate attention to slight ailments. Headaches, colds, and like ailments prevent efficient work. Simple treatment often cures a cold which otherwise would linger for some time. In case of sickness, proper treatment reduces the time of recovery. Proper precautions and care in looking after the health of employees insure a healthy working force, a valuable asset in itself as well as the cause of a decrease in the loss of time due to illness. Employers usually have a serious problem in filling vacancies caused by the illness and death of employees. Proper medical care lessens the number of vacancies, and the loss arising from the introduction of new men into the organization. Employees for some time were suspicious of the interest taken in them by employers,

and it was hard for them to realize that such interest was guided solely by business motives, and that they were also benefited.

One of the chief elements working toward efficiency, is conditioning the air so that an individual may work under the most favorable conditions. The fact that there is an intimate relation between the conditions that surround employees and their efficiency is becoming more generally

Air and humidity demand special attention.

recognized. High humidity and temperature, unpleasant odors, fumes, and dust cause discomfort, detract from interest in work, and are the cause of low efficiency. The question of industrial ventilation is a factor which has been sadly neglected in the past, but it is one, which should be carefully considered by those who are endeavoring to increase the efficiency of their laboring forces. The two chief elements of ventilation are heat and humidity. Heat combined with excessive humidity causes listlessness, discomfort, and inefficiency. If the air, on the other hand, is dry, it is stimulating, and produces nervousness and discomfort. A factory should be kept at a moderate temperature and a low humidity to produce the best atmospheric conditions for good work.

Elements of ventilation.

Employers forget that a workman does more in the morning not only because he is physically fresh, but because the air which he breathes is fresh and exhilarating. There is no reason why the air in the afternoon should not be as fresh as it is in the morning, and the employer who solves the problem obtains greater efficiency from his men. An employer

Temperature, an important consideration.

in a large factory could not get the same efficiency from his men in the summer as in the cooler months. A few thousand dollars installed a system of electric fans and the efficiency was raised to that of the cooler months. The additional output paid for the fans the first two months of service. A hot, sultry factory causes a listless, half-hearted working force, and as a result, the output is decreased, a direct loss to employers in the case of day work and also a loss in the case of piece work. In cool months, the workman passes from the overheated workrooms to the cool air outside. His vitality is lowered, and he becomes an easy prey to colds and different maladies. The result is frequent absences, and this adds to inefficiency. A cool, moderate temperature is what should be striven for, in either summer or winter, and it is an important essential for efficiency.

Dust, bad odors, and fumes are factors causing discomfort and low efficiency. The air in a factory should be as free from dust and as odorless as the air outside. Proper hoods and fans can be used to carry away dust, while odors and fumes can be abolished with little expense. Dust is a germ carrier, and in factories where it is present, there is always great danger from colds and minor illnesses, that influence the working efficiency of the laboring force.

Good light in a factory has a direct and important bearing upon the health and efficiency of the laboring force. Light has an important effect upon production. It should be suitable to the work performed, and so placed as not to cause an extra strain to the eye. Experts have declared that the

Dust, a  
cause of low  
efficiency.

Light: its  
influence on  
production.

normal capacity of factory workers may vary twenty per cent under proper and improper lighting conditions. Good light gives greater output, better quality, lessens liability of accidents, causes fewer mistakes, makes more cheerful surroundings, and tends to a better disposition on the part of workmen. Many factors have a bearing upon efficiency, and of these, the general conditions under which a man works are of the greatest importance. Bad heating, ventilation, and lighting cause not only physical discomfort, but affect the disposition, energy, and interest of the men in their work. These all have a greater bearing on a man's efficiency than the average employer thinks. The employer in the future should give due consideration to all, because they are important cost-saving factors in production.

A workman to do justice to the work which he is doing should have proper nourishment. Many employers give free lunches to their employees, while others give good wholesome food at cost. Some find it necessary to have their own boarding houses, to insure that their men get good wholesome food. A small item like furnishing workmen with plenty of fresh, cool water repays the cost manifold. A workman should have good health and the two chief essentials are nourishment and rest. Many employees consider the interest taken by employers in their mode of living, as so much meddling, and do not realize that it is a business proposition, and at the same time, greatly benefits them by serving as a guarantee against sickness and loss of time.

**Proper  
nourish-  
ment.**

An important consideration in every factory is that

of personal safety. All machines should be carefully protected, and rigid measures taken to protect against accident. There should be proper provision for immediate treatment in the case of injury. Many employers find a nurse and a house surgeon necessities, while many find it profitable to equip and maintain an emergency hospital. It is not unusual to find the best mechanics not working because they are suffering from an infection from slight bruises which would have caused no trouble if proper treatment had been received at the time of injury. The loss to an employer from the temporary idleness of his best mechanics is hard to estimate. Frequently it delays an order, and this in turn causes delays in other parts of a factory. Personal safety and provision for immediate treatment in case of injury are necessities in every factory.

Efficiency methods have directed attention to saving, wherever possible, the energy of employees. All energy unnecessarily expended in a factory has a distinct bearing upon possible output. Sitting at work was formerly regarded as a sign of laziness, but at present, it is encouraged wherever it does not interfere with the performance of work. Chairs and seats have made their appearance in many factories. Elevators and escalators are now frequently used to carry employees to and from work. They cost little, conserve much energy, and are not only sources of comfort, but are the means of increasing output.

Improvements, whether sanitary, educational, or social in their nature, are good for employer as well as



employee. If an employer wishes intelligent and efficient men, he should provide the most inviting working conditions. Good washrooms, lockers, clean and cheery working rooms are highly valued by all employees. Libraries, reading rooms, and free lectures give an employee an opportunity to become more intelligent. Gymnasiums, amusement halls, music rooms, bowling alleys, rest and recreation rooms give the employee good, wholesome amusement, which rests him and gives satisfaction and contentment. All conditions which affect thought, interest, attention, and concentration have a direct bearing upon efficiency. Working under imperfect conditions produces inattention, inaccuracy, and neglect. The employer forces the employee into these faults through the bad conditions under which work is done. Blame and criticism fall upon the employee and not on the employer where they rightfully belong. Labor efficiency demands, among other things, health, proper working conditions, peace of mind and contentment in factory and out. The employee should be contented and satisfied when not working, or his efficiency in the factory suffers. Protection, the maintenance of health, best sanitary conditions, and welfare movements aiming at satisfaction and contentment have, in recent years, become important factors of successful management. Efficiency demands their presence in a factory. Employers are realizing their bearing upon production and costs, and are taking greater interest in the health and welfare of the human element in industry.

Improvements benefit employers as well as employees.

Demands of efficiency.

Tardiness in attendance is a factor of inefficiency which every employer should strive to reduce to a minimum. Efficiency demands not only faithfulness in work, but also regularity and punctuality in attendance. The problem of dealing with tardiness is a difficult one, and

**Tardiness, a cause of inefficiency.** sound judgment should be exercised in working out a system. Experience has proven that tardiness cannot be overlooked, and the best way to deal with it, is to make it unprofitable. Fines are the commonest means of enforcing promptness. Not paying for time lost, the loss of a day's pay if occurring a

**Methods of dealing with tardiness.** certain number of times, suspension, and absolute discharge are among the methods found in practice. Punishment in some form is

absolutely necessary in dealing with certain classes of men. No one method can be given as practicable and workable in all establishments. One which gives complete satisfaction in one factory might be a failure, and the cause of driving good workmen away in another. The employer should remember that factory organization, working conditions, and employees are never the same in two places. In deciding upon a method, due consideration should be given to the character of the employees, whether men or women, skilled or unskilled, salaried or working by the piece. If fines are imposed, the employer should make it clear to the employees, that the purpose of the fines is punishment,

**What to do with fines?** and that they are not a money-making proposition. The only safe way to deal with fines collected is to devote them to some welfare movement for the employees. If fines are kept by the em-

ployer, it inevitably leads to antagonism, and works against loyalty and coöperation.

Every employer finds it imperative to adopt some method of ascertaining whether or not an employee is punctual in attendance. The time clock seems to be the favorite method. Metal or wooden checks, timekeepers, individual tickets punched at entrance, the matter left to the direct supervision of the foreman, and daily work cards are among the methods found in practice. Many claim that a check upon the time, when a workman appears at work is not necessary, and only antagonizes him. In our industrial system, some method is absolutely imperative, and if any trouble arises, it is usually on account of the poor judgment exercised in fixing the punishment, or in the use of the fines collected.

**Methods of  
keeping  
check on  
employees.**

Many employers find it profitable to encourage promptness by a system of rewards. A very effective method is to take promptness into consideration in advancement. Some give cash premiums and prizes at the end of the year to all who have not been tardy, while some base vacations on the timekeeper's records, and take account of promptness in awarding time of vacation with full pay. Those employers who have adopted the award system find it imperative to have a system for punishing tardiness. If an employee were tardy once or twice, with no chance of obtaining a reward, he has a tendency to be careless in attendance in the future.

**Promptness  
encouraged  
by rewards.**

Irregularity in attendance is a serious problem for every employer, and thorough investigation should be

made into its cause. The chief cause of irregularity is sickness, and the question to be answered is, Who is responsible? The employer may be the cause in not having proper working conditions; if so, the employee is not to blame, and the cause should at once be remedied. On the part of the employee, the cause may be lack of nourishment, improper sanitary home surroundings, careless exposure, or intemperance. The employer should insist upon proper nourishment and proper sanitary surroundings. Careless exposure should be warned against, and intemperance should not be tolerated. The reasons for absence from work are many, and each individual case should be dealt with separately. The method should vary with cases, and punishment is only advisable where the cause is due to negligence, carelessness, or intemperance on the part of the employee. Any of these should not be tolerated, and dismissal should be the punishment for the second or third offense. The great safeguard against irregularity is a healthy laboring force working under sanitary and wholesome conditions.

Wages or remuneration for work performed is the most serious question of our industrial system. The interest of the laborer has always been and is to-day centered in wages. To discover and adopt a system of wages, which appeals to both employer and employee as fair and just, assures coöperation, contentment, and enthusiasm, three valuable factors working toward efficiency. If employees are dissatisfied with their wages and feel that they are underpaid,

**Irregularity  
in attend-  
ance.**

**Causes.**

**Methods of  
treatment.**

**Importance  
of wage  
question.**

it causes antagonism, friction, and lack of interest, three of the chief causes of inefficiency. The great problem is to get a satisfied and contented laboring force, and no factor assists more in its solution, than to have employees satisfied with their wages.

The old system of wage payment is to pay an employee a certain fixed sum for the time that he is employed in an enterprise. It was originally the only method, and is still the most common in actual practice. The wages are fixed by bargaining between employer and employee, and the bargaining is done either collectively with labor unions, or by the individual employee fixing his wages with the employer. In small factories, where few men are employed, and where the employer himself or his foreman supervises the work, the time wage is not so objectionable, but in the average factory employing hundreds of workers, with no close supervision, and little knowledge of what a worker produces, the system is a failure. With no incentive to diligence in work, and no account taken of what is done, the laborer simply thinks of putting in his time, and has little or no interest in what he is doing. Why should a man working for time wages do more than just sufficient to hold his place? The good workman receives the same pay as the man who wastes his time, so the workman has little to gain by putting his heart into his work, and really exerting himself. Time wages encourage the laborer either to save his strength for other things, or curtail the output so as not to exhaust the market for his labor. The fact that extra effort, greater care, or more interest is not

Time  
wages.

Disadvan-  
tages of  
time wages.

recognized or regarded stifles ambition, and destroys the interest of the workman in his work. The present interest in efficiency will displace, wherever possible, one of its enemies, the time-wage system, by one more in harmony with its attainment.

Time wages cannot be eliminated altogether, because there are many forms of labor where it is impossible to use any other method of paying an employee. **Time wages necessary in paying certain kinds of labor.** Certain conditions arise in every enterprise that demand time wages, but where the results of labor may be measured in units produced, time wages are usually unsatisfactory, and work against efficiency. Bookkeepers, stenographers, firemen, and engineers are employees who must be paid according to time. The demands for diligent work are good supervision, proper working conditions, and a wage, fair and just to both employer and employee.

The piece-rate system was introduced to overcome the disadvantages of time wages. The system antedates the factory system, but the development of the **Piece-rate system.** factory system gave opportunity for its more extensive use. Piece rate includes all schemes for paying men for what they do, instead of the time they work. The method is not adapted to all kinds of labor, but only where work is such, as admits of measuring individual performance. Piece rate, to be successful, should be accompanied by certain requisites. **Requisites for success of system.** The remuneration should be fair and just, and the employee supplied with proper materials, tools, and equipment. The working conditions should

be of such a nature that the employee can work to best advantage. If employers were fair, and employees reasonable, the system would form the most efficient method of rewarding labor.

The antagonism to piece rate on the part of the laboring force is not the fault of the system, but is due to carelessness, and stupidity of employers. The ordinary method for introduction of the system is so inaccurate and unscientific, that it largely accounts for the employees' opposition, and its failure in many instances. The employer makes what he considers a fair estimate of work, sets the price per unit, and tells the employee that he will be paid for what he does. The records are inaccurate and are not guides for fixing piece rates. Experience has proven that many employers underestimate employees' efficiency, when they have an incentive for greater output as offered by piece rate. A difference as great as fifty per cent in output has been found between time wage and piece-rate systems. As a result of the incentive, the employee becomes more productive, and soon the employer finds that the wages paid are much higher than they were before. Many employers feel that a man should earn so much and no more, and when wages from piece rate exceed that amount, they do not hesitate to cut the rate. This always leads to friction, and the purpose of the system is lost.

**Reasons for antagonism to piece rate.**

**Old system of introduction usually leads to friction.**

Frequently employees, knowing that if they make larger earnings, the rate will be cut, loaf to prevent cutting, and make their earnings about as they were under time wages. Under the old system of

introduction, it seems impossible to fix a rate without later readjustment, and it is impossible to readjust by cutting, without arousing the employee's antagonism. The employee usually considers every reduction as a sign of his employer's greed, and as a result of the increased output, many employers feel angry because they think in the past, they have been imposed upon by employees loafing.

The average employee is very unreasonable in his attitude toward piece rate. He looks upon a cut as unnecessary, and due only to his grasping employer.

**Rate cutting  
sometimes  
justifiable.**

Frequently a cut is justifiable, as when an employer introduces new machinery, or methods which greatly increase the output without extra effort on the part of the employee. Such, the employee does not consider, and gives no credit to his employer for making the change. The success of the piece-rate system depends upon the introduction of a proper

**Proper  
method of  
fixing rate.**

piece rate; one which can be maintained without cuts. The problem of adjusting the rate is a very serious one. The employer should expect to pay, as a result of the increased output, more than the ordinary time wage, but many fail to recognize this, and these should not have anything to do with the system. By careful experimentation and tests, the time required to perform a task under local conditions should be ascertained. The price per piece should be fixed so as to give the average man his daily wage, and to the more efficient an excess depending upon his efficiency. This rate would prove satisfactory, increase output, avoid antagonism, and make rate



cutting unnecessary. If the employers would adopt scientific methods in fixing rates, and save later readjustment, success would follow and efficiency would result.

The introduction of scientific methods to ascertain proper rates has resulted in various modifications of the piece-rate system. The premium plan, the bonus method, the differential piece-rate system, all have their advocates and their critics. Employers adopting one of the scientific systems have been too arbitrary in fixing the task, and its remuneration. Ob-

**Scientific  
piece rates.**

taining the time for the task is ordinarily conducted without taking the employee into confidence, and in many instances, strong opposition arises before the system is adopted. The employer should realize that the employee should be consulted in fixing the task, as well as its remuneration. If this is done, much opposition will be eliminated.

**Methods of  
avoiding  
antagonism.**

The system should benefit both employer and employee, and if so, the employee should have a share in its installation. Greater recognition of the rights of employees would avoid much opposition by employees to scientific piece rates.

Profit sharing is advocated by many as giving the proper incentive to greater efficiency on the part of the employee. According to the method, the employee receives in addition to his wages, a

**Profit  
sharing.**

share of any profits that may arise in the business. It presupposes a voluntary agreement on the part of the employer to set aside a portion of the profits, for division among all or a certain number of employees, as a stimulus to extra work. The interest

**Methods of  
working.**

of each in the profits is largely influenced by causes over which he has no control. No distinction is made between good and poor employees, the lazy workman receiving the same as the energetic. With such a system, there is little incentive to the energetic to put forth greater efforts, only to be forced to share the gain with his lazy fellow worker.

The average workman cannot look forward to a profit, which is six months or a year away. Easy work is

**Objections  
to profit  
sharing.**

more attractive than hard, with a possible reward to be shared with others, many months in the future. Any reward which is remote in

time of its application has relatively little influence in determining the average man's actions. Profit sharing is so remote in its reward, and based upon so many contingencies, that it gives little incentive to extra effort. It requires a more immediate direct reward to arouse a man to action.

The payment of wages concerns two parties, the employer and the employee. Efficiency demands the harmonious coöperation of the two, and this cannot be

**Wages  
should be  
fair and just.**

effected by the mere paying of wages, or giving a share in the profits. The question between the two is not so much the amount paid,

but whether or not the wage paid, is a fair and just one. No problem has a more direct bearing upon efficiency than wages, and its satisfactory solution demands deliberation, tact, and liberality on the part of employers, and judgment and reasonableness on the part of employees. It is a recognized principle, that the greatest incentive a man can have to work efficiently is

to be paid according to some scheme, whereby his remuneration is directly proportionate to his output.

Satisfaction and contentment arise only when the system of payment is based upon paying labor according to its productivity. The average man should be guaranteed a fair wage, and an incentive to further efforts. To be successful, such wage payment demands far more than mere determination. It needs on the part of employers, proper equipment, modern machinery always in the best repair, no waiting for materials, best possible sanitary and working conditions, social welfare and educational institutions, and on the part of the working force, loyalty, concentration in work, diligence, and coöperation for the success of the enterprise.

One factor which the average employer overlooks, and one which has an important bearing upon output is fatigue. Fatigue may be defined as weariness from bodily or mental exertion. A certain amount of fatigue is necessary in doing any piece of work, and the aim of the employer should be to make it as small as possible. This demands a careful study of the methods of doing work, the conditions under which work is done, and the health of the working force. Every unnecessary movement should be eliminated, as it takes unnecessary energy, and this increases fatigue. Many factors, as properly nurtured and rested employees, proper sanitary conditions and surroundings, and energy-saving devices, as stools, chairs, escalators, and elevators, increase the energy of employees for productive work.

**Greatest  
incentive  
is wages  
based upon  
productivity.**

**Fatigue.**

**Factors to  
lessen  
fatigue.**

It has been said that ninety-five per cent of the workmen in the United States are doing less than sixty per cent of what they might do without physical injury or overexertion. This statement may be exaggerated, but it is nevertheless true, that one of the greatest wastes arises from men loafing or idling away time. The problem of preventing loafing or soldiering is a most serious one with every employer. The average workman is naturally inclined to take things easy, and to do the least amount of work necessary to keep from getting discharged. This is one of the serious evils arising from day wages. When men are paid the same wages, the more efficient slackens his pace to that of the lazy fellow, because why should he do more when he receives the same pay.

A great part of soldiering is done by men with the deliberate object of keeping their employer ignorant of how fast work may be done. Many deliberately study how slowly they can go and still convince their employers that they are going at a rapid pace. The fear of making a record, which will be used as a basis for future piece rate, causes men to soldier as much as they dare. They look upon extra effort to earn more wages as leading to a cut in piece rate. As one of the main causes of soldiering, the prevailing fallacious belief among laboring men that the curtailing of output gives more employment should not be overlooked. Frequently men should not be harshly criticized, as they do the best they can under discouraging conditions. Soldiering is often deliberate, as wasting time in order to make a job last, so that

**Soldiering,  
a serious  
problem.**

**Different  
methods of  
soldiering.**

**Reasons  
therefor.**

it will not be necessary to change jobs at an inconvenient time. Men are frequently careless about being late in starting their machines at the beginning of work and stopping a few minutes before closing.

Soldiering, in whatever form it is found, increases costs, and its reduction should demand the careful attention of every employer. Its elimination requires the coöperation of both employer and employee.

The employer, on his part, should remove, as before explained, all causes for waste of time, resulting from inconvenient factory equipment, machinery, tools, and methods. He should pay his men wherever possible by piece rate, and in his determination of the rate, he should take special care that the rate is based on productivity, and that the men receive a just remuneration for their efforts. There is no more effective way of preventing idleness than to make idlers losers. Employees on their part should be prompt in starting work, faithful in keeping their machines running at full capacity while at work, sincere in putting their whole thought into what they are doing, enthusiastic in their work, and loyal in their coöperation with their employers for the success of the undertaking.

The attitude of labor has usually been hostile towards every innovation in industry. Workers in general believe, often with truth, but more frequently with mistaken ideas, that every new idea introduced is for the purpose of increasing profits at the expense of the laborer's wages. So it is with the American trade unionist in his attitude toward the efficiency movement. He has been as a rule, hostile and has made

**Elimination  
of soldier-  
ing.**

**Trade  
unions and  
efficiency.**

unjust criticisms of methods, about which he knew little or nothing. But with a better understanding of what efficiency means, this hostility will ameliorate, and many unionists will be won over to the side of the new movement.

Many believe that efficiency means the speeding up of workers to a killing pace, so that the years of usefulness of the average worker are lessened. The error in this much-quoted statement lies in a false conception of the

**Output in-  
creased  
through  
conserving  
energy.** efficiency movement. It results in increased productivity, but this is not due to the worker consuming extra muscular or nervous energy.

The elimination of waste efforts and time, the better factory equipment, methods, and tools, the better working conditions, and the benefits derived from the various welfare movements, all tend to conserve the laborer's energy and strength, and at the same time increase his productivity.

The unionist critics of the efficiency movement believe that it would substitute the old system of individual

**Collective  
bargaining  
not abol-  
ished.** bargaining, where the employee is at a great disadvantage, for the modern plan of collective bargaining, where the employee and employer meet on more equal terms.

The dispute arises from unionists considering the same pay to men of different abilities, a necessary part of collective bargaining. This is not necessarily so. The efficiency movement refuses to pay the drones the same wages as those received by the energetic enterprising workmen in the same union, but it does not object to the unions assisting in fixing the task, and its remuneration by collective bargaining.

If union labor would make a careful study of the aims of the efficiency movement, and how efficiency is to be reached, it would not be able to find anything harmful to its interests. I believe that it would be for the best interests of labor in general to welcome the new movement. Many more advanced labor leaders have come to realize that "the world does move," and that there is nothing hurtful to their cause in efficiency methods.

The lack of labor efficiency is recognized to-day as one of the most serious questions in our industrial system.

Labor efficiency, as we have seen, is of two kinds, that for which employers are responsible and that due to the employees. The em-

**The demands of labor efficiency.**

ployer should make his equipment, machinery, tools, and methods capable of efficient results, but on the part of the employee efficiency should not result in injury or injustice to the workingman. This can only be accomplished by a careful study of the employee, and the devising of methods of doing work without waste of time or energy, and at the same time, conserving health, and physical and nervous vigor. An imperative demand is that justice be the basis of relations between employer and employee. Justice in treatment and wages should be the watchword. This brings a better understanding between employers and employees.

The past century was the age of machinery, while the present is to be that of labor. Employers and employees are daily realizing that their interests are not antagonistic, but one, that they are working toward the same end, and that their efforts bring mutual rewards.

**Relations between employers and employees must be mutual.**

With this recognition, the previous attitude of mutual suspicion will be changed to one of mutual respect, and confidence.

### QUESTIONS

1. Account for the general lack of interest taken by employers in employees during the nineteenth century.

2. Give reasons for the revival of the apprenticeship system. In what way does the new system differ from the old?

3. Why does efficiency demand contentment and permanency in the working force? What are inducements to hold men in an organization? Give estimates of each.

4. How does health affect efficiency? What factors have a bearing upon the health of the working force?

5. Why should employers pay particular attention to air, light, odors and fumes in factories? How do these affect output?

6. Why are nurses and surgeons a necessity in large factories? In what way do their services add to efficiency?

7. What bearing have welfare movements upon efficiency? Why are they guided by business motives?

8. Why are tardiness and irregularity causes of inefficiency? How should each be treated?

9. Why is the wage question so important in our industrial system?

10. Name the different systems of remunerating labor. Give the advantages and disadvantages of each.

11. What is the proper method of introduction of the piece-rate system? How does it differ from the method usually found in practice?

12. What are the requisites for the piece-rate system? Give reason for the antagonism of laborers to the system.

13. What is profit-sharing? Why does it not usually give an incentive to more output?



14. What factors affect fatigue? How may unnecessary fatigue be eliminated?

15. Give the causes for soldiering? How may they be eliminated?

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## CHAPTER X

### BUYING

THE chief aim in business is profit making. Success is tested by the presence of profits. The business man, **Buying: its importance.** to obtain profits, must receive for his goods a sum greater than what they cost him. In every establishment goods are purchased, and this outlay often represents the greater part of the costs. To obtain goods at the lowest possible price is of the greatest importance to every business man, and frequently decides the success or the failure of an enterprise. Good buying is a very important factor in every business enterprise. This is true in mercantile establishments as well as in manufacturing plants. Everywhere the importance of good buying is recognized. By carefully studying the experiences, and methods of successful buyers, certain underlying principles are found which may be of service to the business man, who is interested in the problem of buying.

One of the chief duties of the buyer is to keep his establishment supplied with sufficient goods to meet all demands. **Stock on hand.** The proper amount of stock to keep on hand is an important question in every factory and store. The carrying of stock entails certain expenses, as interest on the amount of capital invested,

rent, insurance, and wages for handling. Overstocking ties up unnecessary capital, and adds to the various expenses of carrying stock. Understocking in its turn is nearly as costly. Lack of a proper supply of materials causes idleness of men and machinery, and adds to expenses. The keeping on hand of a proper supply of stock is the task of the buyer, and one which requires sound judgment and the closest attention.

Over-  
stocking.

Under-  
stocking.

The buyer should have some means of keeping informed of the condition of his stock. This is done by keeping a perpetual inventory. Through the study of past stock requirements, it is comparatively easy to ascertain the maximum and minimum limits of stock to be kept on hand. The stock should be kept within these limits, and if so, overstocking as well as understocking is prevented. The records keep before the entrepreneur the exact condition of his stock. They tell him not only when and how to buy, but give him a complete history of past years of business. They tell him what goods have sold best, the quantities of sales, and many other important and essential details.

Stock rec-  
ords.

Perpetual  
inventory.

Importance.

In large establishments, the storekeeper follows closely the record cards, and when the minimum is approached, the buyer is warned. Sufficient time should be given not only to obtain the goods under normal conditions, but a reasonable length of time allowed for unexpected delays. A buyer should not unnecessarily delay in placing an order. When the order is placed, the goods

Precautions  
to prevent  
running  
short of  
goods.

should be followed until they are delivered to the store or factory. When the stock is getting low, and has been ordered, the storekeeper should make daily reports to the buyer. Frequently an abnormal demand arises and goods must be obtained at short notice. Labor troubles or other unforeseen delays may occur, and prevent goods from being delivered on schedule time. The buyer should be ready for such emergencies, and always know where he can get his goods on short notice. Running short of materials frequently causes idleness, and the shrewd buyer should ever be ready to meet such emergencies. In a small business enterprise, the buying is usually done by one person, the proprietor. A perpetual inventory to guide in buying is just as important as in a large enterprise. Large establishments usually have several buyers, each a specialist in buying a particular kind of goods. The buyer in a large enterprise must, to a certain extent, depend upon the storekeeper. With a reliable perpetual inventory, and care in giving sufficient time for deliveries, supplies of materials should rarely be insufficient to meet all demands.

A buyer must possess a thorough knowledge of his goods. If his goods are finished articles, he should be

**Knowledge** acquainted with the quality of raw materials  
**of goods.** used in the making, and with every process

in their production. An excellent training is to spend some time in factories producing the goods. The buyer is able to study the character of the raw product used, and the good as it passes through stages of production and is thereby better able to judge of the

character of the finished article. Tact in drawing information from workmen, cleverness in testing samples at different stages of production, and close observation of the finished article assist in giving the buyer a thorough knowledge of his goods.

Methods of  
obtaining  
knowledge.

Some find it profitable to work short periods in different factories producing the same kind of goods. Afterwards, frequent visits should be made to the factory, so that the buyer may be kept informed of any changes in the production of his goods. Those factories should be patronized that take the greatest pains in selecting raw materials, and give the greatest attention and care to the different processes of production. If the goods purchased are raw materials, the buyer should be acquainted with their mode of production, and the different qualities of goods in the market. A thorough knowledge of goods is necessary as one of the important essentials of good buying.

A buyer must know the costs of production of his goods. This knowledge is frequently difficult to obtain, as many manufacturers carefully guard their costs from buyers. A buyer can usually

Knowledge  
of costs.

secure the costs in some factory, and these can serve as a standard for those unwilling to make known their costs, but producing under similar circumstances. A knowledge of costs is essential to protect the buyer from paying too high prices. He knows

Importance.

whether or not quoted prices are too high, and the possibility of obtaining better quotations. When buying without knowing costs, many a buyer pays a higher price than if he had known costs. A knowledge of

costs is a valuable asset, and essential in judicious buying.

Every buyer must pay particular attention to quality. How to get that quality which is best adapted, and most economical for the particular purpose

**Quality.** is a very important question. In large enterprises, it is best to have laboratories for the purpose of finding out the quality best suited, to order according to specification, and carefully test all deliveries to see that the ordered quality or grade is obtained.

**Precautions taken to obtain quality.** An entrepreneur in a small establishment may, at the cost of a few dollars, equip himself with

a small laboratory. Under no circumstances should the careful testing of goods on delivery be neglected, for it is the only guarantee that the quality ordered is obtained. The same precautions should be taken by wholesale and retail establishments. More and more attention is being paid to ordering goods according to quality. Many establishments have a testing laboratory where goods delivered are tested as to quality, before they are allowed to go to the storeroom. If care is not exercised in receiving goods, a poorer grade may be substituted. An inspecting and testing system is absolutely necessary, and pays for itself several times during a year.

A buyer must thoroughly know the markets which he enters. This demands careful and constant study of everything, which may directly or indirectly affect the supply and demand for his goods.

**Knowledge of markets.** The relation of employers and employees in the factories producing his particular line should be carefully studied. Are trade unions active, are employees properly paid, well

treated and satisfied, is there any likelihood of a strike, —these are some of the local questions which should be answered. Are there political dissensions in any part of the world which may result in war? If so, would it directly or indirectly affect the market for his goods? Do raw materials, grown annually, or minerals form a large item in the cost of production? If true in the first instance, an intimate knowledge should be obtained of the acreage, conditions while growing, and crops in the producing countries of the world, and how the production affects the world's market. If true in the second case, what circumstances might arise to affect the supply and demand, and so react on the price of the buyer's particular goods? This is not necessary where the raw materials form only a small item in the expense of production, as, for example, the price of steel for making the works of watches. Records may be obtained from reliable trade and financial journals as well as from numerous reports appearing from time to time. These should be read and studied. Every buyer should not only carefully read reliable trade journals, but also the leading financial papers to keep in touch with the general trend of markets. An intimate knowledge of all the circumstances affecting the market price of his goods is essential for every buyer.

A buyer in many instances must have an intimate knowledge of conditions affecting markets of other goods than those which he buys. This is particularly true when the raw product forms a large part of the finished article. The buyer of flour should have as intimate a knowledge of the

Knowledge  
of markets  
of indirect  
goods.

wheat market as he has of the flour market. A change in the price of wheat soon affects the price of flour. Frequently study must be given to more than one additional market. The buyer of shoes should not only have an intimate knowledge of the leather market, but also that of raw hides, whereas the buyer of hams should pay particular attention not only to live hogs, but also grain. Frequently through an intimate knowledge of the market of an article used in making the finished product, a buyer is able to forecast a change in price of his particular good which enables him to purchase more judiciously, and increase profits.

An intimate knowledge of market conditions allows the forecasting of future supply and demand. If prices are high, and there is every indication of an extra supply, a buyer can profit by buying in such quantities, as are just necessary to meet demand, and order frequently. If prices are low, and there is indication that demand over supply will increase in the near future, a buyer can take advantage and buy large quantities of staples, but extra precaution should be taken in buying non-staples. The ability of a buyer to forecast future prices is a very valuable asset and may lead in the course of a year to valuable additions to profits.

The management of an enterprise should at all times keep the buyer informed of the condition of its finances.

**Knowledge of firm's finances.** It is necessary for a buyer to know whether he is required to buy everything on time, or part on time and part for cash. During certain months, a firm may be able to allow its buyer to buy a large



part for cash. The buyer should be so informed, because he may be able to place his orders where more favorable discounts may be obtained. Many firms make a serious mistake in withholding from the buyer the true state of finances. With low prices, the buyer should know how much can be bought without embarrassing his firm. Frequently he overbuys, believing that finances warrant it, and when payments come due, embarrassment arises, and it would have been better to have kept the stock within normal limits.

Promptness in filling orders is an important question for a buyer to consider. Some firms are more prompt than others in filling orders and shipping goods. The buyer in making his study of the different firms offering his goods should pay attention to promptness. The fact that a firm is punctual in filling orders, or lax is valuable information. Whether goods are to be received within reasonable time, or only when the shipper feels like shipping is important for the buyer to know. Frequently it is necessary to place an emergency order, and it is important to know whether or not a firm can be relied upon to rush the order. In most cases, time of delivery is an important consideration. Too great tardiness in filling orders may lead to idleness of factory, or lack of stock on the shelves. The buyer should not, unless absolutely necessary, patronize a firm where lax methods exist in filling orders, or shipping goods.

**Promptness  
in filling  
orders.**

The buyer must know the location of the business establishments of the different sellers which he patronizes. Some are located at a distance, while others

are near his business enterprise. What are the means of transportation, water, rail, or part by one, and part by the other, should be considered. **Knowledge of how goods are shipped.** Water transportation takes more time and is more subject to delays than rail. In the case of rail, do goods come through or is it necessary to reship? In the latter case, delays frequently occur. The different roads over which goods are shipped should be considered. Some roads are careful in handling freight, while others are careless about side-tracking cars and causing unnecessary delays. Firms differ in keeping their word. One may be depended upon to do as it says, while another pays little heed to its promises. **How firms keep promises?** A buyer should know the reliability of a firm, and to what extent, it may be depended upon to keep its word. A buyer knows what dependence can be placed upon the word of firms from whom he has done buying. If it becomes advisable to give an order to a new firm, he can easily find customers, and a few questions will suffice to ascertain what dependence can be placed upon its promises. Occasions frequently arise, where a buyer finds it very important to know what reliance can be placed upon a firm's word.

Firms differ in their carefulness in filling orders. Some have a rigid inspection system, insuring that only goods ordered are sent, and that these are of the highest quality. **Carefulness in filling orders.** Others have lax or no inspection methods, and a buyer cannot rely upon getting the goods ordered, and only knows what he will get when the goods are actually

delivered. Delays are frequent from having the wrong goods or qualities sent. It pays a buyer to visit the establishments of as many as possible of those he patronizes, and among other things, to carefully note the care taken in filling orders, and the means adopted to see that only goods ordered are sent. Patronage should be given only to firms who pay particular attention to the filling of orders, and who possess a rigid inspection system.

A buyer must follow inventions and improvements affecting the making of his goods. New machines may be invented or new processes discovered which produce a better grade of goods. A buyer can profit by placing his orders where new machines or new processes are in operation.

**Knowledge of inventions and improvements.**

One firm may make an improvement in putting a particular good in a more attractive form. This a buyer should know, because such a form may be the means of increasing the demand for and sale of the good. A buyer should carefully follow the methods of producers of goods that he buys, to see that they are alert to the introduction of new machines and processes for improving the quality of their product.

Buyers of particular goods, especially those confined to style, as clothing and millinery, usually make periodical visits to style centers. They carefully study the various styles, and select those which they consider suited to their customers.

**Buying of goods depending upon style.**

The better a buyer knows the tastes of his customers, the better able is he to make selections which will readily sell. Profits in such cases largely depend upon judicious

buying. Judicious buying, in its turn, is based upon the buyer's knowledge of his customers, and his ability to choose styles that will suit their taste. With competition so keen, misjudgment as to style, and quantity needed may, at the end of the season, show few sales and quantities of out-of-season goods on hand. This means loss. The successful buyer is the one, who is able to judge what styles sell best, and his success depends upon his forecasting as nearly as possible the demand, and being out of stock, when the season is over. The buying of goods depending for their demand upon style is the most difficult task in buying. The only rule which can be laid down is to suit the customers, and try to read their tastes. The success of many firms depends upon ability to read human nature, and sound judgment in choosing what will sell.

Goods may be divided into two classes, — staples and non-staples. Staples are those goods which are in constant use and which possess a continual demand. Non-staples are those depending for their demand upon whims, fads or fashion. The demand for such goods is very fluctuating. It often increases in a short time from nothing to a large amount, and frequently declines as rapidly as it came into existence. Goods, like Christmas and Easter decorations, possessing only a seasonal demand, should be classed as non-staples.

The skill of a buyer is tested in buying non-staples. Nowhere does financial success depend so much upon good buying. To have goods on hand when a fad starts, and be sold out when the fad goes is

**Buying non-staples.**

the goal of every buyer. The nearer a buyer reaches this goal, the greater are his profits. When a fad disappears, if many of the articles are on hand, it represents a loss. These must be sold at a discount, and frequently at only a fraction of their original cost. It must be admitted that there is considerable guesswork, and also that luck plays a very important part. Nevertheless, a careful study of the customers, their wants, desires and wishes, materially assists a buyer in forecasting demand.

A great temptation open to all buyers, and one which many are not able to resist, is overbuying. The overbuying habit is dangerous, and frequently leads to bankruptcy. The buyer of staples may, **Over-** through the inducement of low prices, buy **buying.** more than necessary to meet present needs. Precaution should be exercised, and it is not even safe to greatly overstock, it matters not how great the temptation to do so may be. The carrying of stock entails expenses, and there is also danger of deterioration. Many staples must be disposed of within a certain time, or they deteriorate in value. The question of possible deterioration with time is a very important one to consider, and one which is frequently neglected. The time for payment for goods always comes. Many buyers do not consider this and hardships frequently arise in raising the payments for surplus stock. The question of the extent of overstocking through the temptation of low prices is a difficult one. In every case, it is speculation, and extreme care should be exercised in extending stock beyond that which can be disposed of in a certain period. The question of overbuying should

**Limitations  
on over-  
buying.**

not be undertaken at haphazard, but careful study should be made of the nature of the good, its liability to deteriorate, and the financial means of the firm. These questions should be carefully considered by the buyer, and he should weigh each one separately before he is too strongly tempted by low prices.

Goods which are not subject to deterioration with time may, if finances warrant, be bought in large quantities when prices are low. Many business men, using large quantities of such staples, find it profitable to build special storehouses for storing surplus stock. Though an article may not deteriorate, yet with all articles there is more or less expense in carrying. The question of the ability of the entrepreneur to successfully finance overstocking is an important problem. Many a buyer in his eagerness to overstock, and take advantage of what he considers a favorable time to make profits, buys such quantities that he later faces financial difficulties in paying for them. The question of funds should always be kept in the foreground, and no buyer is justified in buying beyond the financial means of his firm.

Many staples, as wheat, cotton, barley, etc., may be bought for delivery any month in the year. This saves the buyer the expense of carrying, but in studying the prices for future delivery, such expense should be given careful consideration.

In buying for future delivery, too much emphasis cannot be placed upon a careful study of all conditions that might affect the market. To estimate the influence of future happenings upon the relation between supply

**When over-  
buying is  
justifiable.**

**Buying on  
future  
delivery.**

and demand is the chief business of brokers. Buyers also find it profitable to carefully follow all conditions that might possibly affect the market of their goods, and estimate their influence. Careful study and sound judgment in forecasting the future often enables a buyer to increase his profits by judicious buying. Every buyer should be a careful student of sources of supply, and able to analyze all conditions that might affect supply or demand.

If care should be exercised in overbuying staples, extreme care must be taken with non-staples. Low prices are, as a rule, traps to ensnare the un- **Overbuying non-staples.** wary. If large discounts and low prices are offered, it is well to be cautious, because these inducements are usually for the purpose of selling stock for which the demand will likely fall in the near future. When the style of shoes changed a few years ago from the narrow toe to the broad, manufacturers having a large quantity of narrow shoes in stock, and foreseeing the change in style, offered inducements at low prices and more favorable discounts. Many merchants were ensnared, and bought large quantities. Before the goods were delivered the new style came in, and when the goods were received, many were offering them on bargain counters at far less than what was paid for them. Many paid dearly for their experience, of being too easily tempted by low prices. With all goods except staples, it is always the greatest kind of risk to overbuy. No one can tell when demand will change, and sometimes it only takes a short time for it to almost cease. Good buyers of non-staples are never tempted to overbuy by low prices

or large discounts. They have the demand for their goods carefully forecasted, and they stand rigidly to it. Low prices are only a trap for the young and untrained buyer, and few escape without paying dearly for their lesson.

Every retail business caters to a different class of customers. It will not do to study the wishes of one class, and draw conclusions for others. Each class should be separately studied, because the demands of all are not the same. Some business enterprises cater only to the well-to-do and wealthy, while others obtain their trade chiefly from the middle classes and laborers. The quality and grade of goods should in each case suit the class of customers served. In a haberdashery serving only wealthy people, it may not pay to keep neckties of a quality that sell for less than seventy-five cents, while in another store, it may not pay to keep such expensive ties. The important question is what class of customers is served, and every effort should be made to cater to their desires, wishes and sometimes, even whims.

A buyer for the retail trade should buy to suit his customers and not to please himself. Many buyers are hampered in their success by paying heed to their own likes and dislikes, and neglecting those of their customers. A buyer should always remember that the customer is the one to be pleased and satisfied, and to bear that in mind in buying. Buying that which will not sell is loss, and in order to sell, a good must satisfy and please, not the buyer, but the customer. Some buyers mingle with their customers

**Retail business caters to different classes of customers.**

**Buyers should buy to suit their customers.**



and by questions learn their desires, while others rely upon clerks to learn their likes and dislikes. Some method should be adopted and carefully followed, because no buyer can rely upon guesswork to guide him in buying.

The problem of deciding what goods to carry in stock is an important one. If sound judgment is not exercised, the shelves may soon be filled with unsalable goods. Clerks are usually required to note goods asked for and not in stock. It does not always pay to add every article asked for. Before an addition is made, sound judgment should be exercised and careful study made of conditions in order to forecast the demand. In forecasting the demand, assistance is given by knowing the number asking for an article during a certain period. A buyer should be sufficiently acquainted with his class of customers to judge the possibility of their buying any new article or brand, if kept in stock. A particular article or brand may be asked for and wanted by only a few customers. The small amount sold will not pay for the expense of carrying the stock. Again, there may be an article, at present, asked for by only a few, but by growing in favor may in a short time be in great demand. The wisdom of the buyer in deciding this question may often result in greatly increasing profits. The presence of an article or brand in a store may be the means of attracting people to the store to buy other goods. It may not pay to carry it, but goods sold through its presence may pay to keep it on the shelves. If careful study is not made as to future demand, and articles are added with-

What goods  
to carry in  
stock?

out thought, great losses may arise. New articles are added, called for by a few, and the demand ceases. The remainder must be disposed of at the bargain counter. Go into any store, look over the bargain counters, and you will see hundreds of instances of bad judgment in forecasting future demand. Each mistake in forecasting, and adding unsalable goods adds to costs and lessens profits. The success of many retail stores depends far more upon careful and judicious buying than upon selling.

### QUESTIONS

1. What place has buying in our industrial system? Mention the ways in which buying may assist in lowering costs.
2. What is the purpose of cost records? Give the importance of maximum and minimum limits.
3. What expenses are incurred in carrying stock? When are these to be considered by the buyer?
4. What precaution should be taken to assure sufficient stock to meet demands? What losses arise when stock runs short?
5. What knowledge of goods is necessary in buying? How is it acquired?
6. Give the advantages arising from knowledge of costs of goods. How may costs be obtained?
7. What savings arise from buying goods according to quality? What precaution should be taken to assure that the quality ordered is obtained?
8. Explain why it is necessary for a buyer to know the market in which he buys. Mention several conditions which affect markets.
9. What is the basis for forecasting supply and demand? In what way may forecasting be of service to the buyer?

10. What knowledge of his firm should a buyer possess? Mention the advantages that may arise from such knowledge.

11. Why is it important to know promptness in filling orders, route of shipment of goods, and the keeping of promises by the seller?

12. What advantages arise from a buyer keeping himself informed of new inventions, methods and processes in the making of his goods?

13. What is the difference between staples and non-staples? Mention considerations that assist in buying non-staples.

14. What inducements lead to overbuying? What limit should be placed on overbuying?

15. Mention the advantages arising from a careful study of customers. What should decide the goods to carry in stock?

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## CHAPTER XI

### SELLING

GOODS are produced in order that human wants may be satisfied, directly or indirectly, through their consumption. People engage in their production, either for home consumption, or for disposal to others. A hundred years ago, the common custom was to produce in the homes a large part of the goods needed for home use, but the past century has introduced such industrial changes, that to-day people depend on others for goods to satisfy their wants. The production of goods for sale is the fundamental purpose of our industrial system, and the basic structure of all business activity.

Men engage in business for profit-making. Profits depend upon careful buying, low cost of production, and good selling. Carelessness or bad judgment in one is sufficient to eliminate profits, and force an enterprise into bankruptcy. The materials used may be carefully bought, and the finished article produced at low cost, but in order that profits may exist, the finished article must be sold at a price greater than the cost of production. The manufacturer of a new article should decide before he builds his factory the possible demand for his goods, and if sufficient can be sold to pay for production. It is nonsense to produce

an article which cannot be sold. If a manufacturer wishes to enlarge his plant, he should carefully consider the demand for his goods and find out if the demand can be increased to take the increased production at a profitable price. The existence of every enterprise depends upon the ability of the entrepreneur to dispose of his product. Selling is a very important factor in every business. Too great emphasis cannot be placed upon its importance, for upon it, frequently depends not only the success, but the very existence of an enterprise.

An important problem for every manufacturer is the disposal of his product. Buyers must be found, and in reaching them various means may be used, as **Methods of selling.** salesmen, letters or circulars, advertising, retail stores owned by the manufacturer, and independent agents. Careful study should be made of the article to be sold, and the method adopted should be the one best adapted to the article, the most economical, and at the same time sufficiently extensive to dispose of the product of the factory.

Customers may be divided into three general classes, —jobbers, retailers and consumers. Manufacturers may sell to one, two or all three classes. A **Classes of customers.** jobber is one who buys in large quantities, in order to sell to the retailer in smaller quantities. His business is not concerned with selling directly to consumers. When he does, he is engaged in **The jobber.** the retail as well as the wholesale business. Jobbers are known under various names, as wholesale merchants, commission merchants, commission brokers, and exclusive agents. Many manufacturers sell only to

jobbers, and trust to them to dispose of their goods. They do not compete with them, by selling to retailers or to consumers. Jobbers usually handle the products of many firms, and are supposed to give equal support to all products, but they frequently fail to do so. Some goods carry larger profits, and the less paying are neglected for these.

The development of the departmental store, and the extensive use of advertising has increased the number of manufacturers selling directly to retailers and consumers. The jobber has in many instances been eliminated, but nevertheless he still continues to be an important factor in business. As long as small retail stores continue to do business, the jobber will thrive. He replenishes the merchant's small stock and saves ordering directly from the manufacturer. As a rule, the purchases are not large enough to buy direct, and if the manufacturer is some distance away, the merchant does not wish to wait for his goods when he can obtain them at short notice, and as cheaply from a jobber. In the city of New York, departmental stores have not lessened the number of small retail stores, and the jobber continues to be an important link between retailer and producer. He performs an important work and is a necessity in the present distributing system.

Retail merchants are those who buy in order to sell directly to consumers. They may purchase their goods from either jobbers or manufacturers. The size of their establishments varies from the small grocery stand to the large departmental store. The re-

**The jobber  
a necessity  
in the pres-  
ent distrib-  
uting sys-  
tem.**

**Retail  
merchants**

tailer is the most important link in the general distribution of goods from the manufacturer to the actual consumer. To-day nearly 90 per cent of all groceries, clothing and drugs are distributed through retail stores. Many jobbers conduct a retail as well as a wholesale business, but sell to retailers at a cheaper rate than to actual consumers. Retailers do not care for the competition of jobbers in their field, and whenever possible, refuse to patronize those who retail their goods. This keeps many jobbers strictly in their own field.

The retailer is reached by the jobber or the manufacturer in three different ways,—traveling salesmen, advertising, letter or circular. Each has a distinctive field in selling and requires careful consideration. In deciding upon the method, careful study should be made of the product to be sold, and that which is best adapted should be used. Some goods may be easily sold by letter, others by advertising in trade journals, while others demand presentation to the prospective buyer by competent salesmen. The most common method is that of salesmen, yet buyers are often attracted by letter or advertising. Frequently a prospective buyer is introduced to the goods by letter or circular in order to prepare him for the traveling salesman. Many find the use of all three necessary, and make special use of the letter to introduce the goods before the visit of the salesman.

**Methods of  
reaching  
retail  
merchants.**

During the past few years, many manufacturers have eliminated the services of the middleman and sell their product directly to the actual consumers. Salesmen or agents, branch stores, and the post office are the chief

means used in direct distribution of goods. Many goods, as pianos, agricultural implements, automobiles and carriages, are especially adapted for distribution through agents. There is a growing tendency for manufacturers of certain goods, as boots, shoes, hats, etc., to distribute them through their own retail stores. The great increase in the factory-to-consumer business has largely resulted from development in advertising. Advertising has been an important factor in making possible our industrial and economic development.

The mail-order business is of recent origin and every year is assuming greater proportions. Many large establishments do only a mail-order business, while many retail stores have made it a special department. It depends for its success upon advertising, which is the very life of the business. It is difficult and expensive to obtain a clientele. Extreme care and sound judgment should be exercised in choosing mediums for advertising so as to reach the class of people who will buy the goods offered for sale.

The mail-order business has many advantages over ordinary retailing. The field of selling in the latter case is limited to a locality more or less restricted, while in the former, the limit is the American continent. Sears, Roebuck and Company have customers in every state in the Union, as well as in nearly every province of Canada. The mail-order department of Best and Company, New York, operates in all parts of the United States, as well as Canada. Local conditions frequently react upon business, but the mail-order busi-



ness escapes such influences. The expenses of conducting such a business, when once established, are far less than the retail business. A large stock is not needed, and expensive floor space is saved. A loft will serve as headquarters, as well as an expensive store. The expenses of selling are largely confined to advertising, whereas in a retail business a selling as well as an advertising force must be maintained. The business is strictly cash and the risks of credit are eliminated. The expenses saved in selling are sufficient to allow the sale of goods at lower prices. Competition can be keenly carried on with local merchants, and many believe the time is not far distant when local competition will be greatly increased by mail-order houses with headquarters in distant cities.

In buying through the mails, time is necessary for delivery. This varies with the distance, and the promptness of the selling establishment in filling orders and in shipping goods. In many cases, purchasers take decided risks in buying from catalogues. These risks are almost eliminated with staples or known brands, but with goods where style is a requisite, the chances of dissatisfaction are great. An article may look very attractive in a picture, but when it is seen, it may be unbecoming and unsatisfactory. Where dissatisfaction occurs, it is quite a different matter from taking the article down to a store or to a neighboring town to have it changed or altered. It must be sent back, and frequently considerable trouble arises in making the exchange. The mail-order business is not very satisfactory for articles depending upon style for their sale.

Disadvantages of the mail-order business.

Retail stores, although keenly feeling in many ways, the competition of the mail-order business, will continue for years to be the chief factor in the distribution of goods to the actual consumer. Several advantages arise in

**Advantages  
and disad-  
vantages of  
retail  
business.**

buying from retail stores. There is no waiting, as goods are delivered within a few hours after purchase. Many people like to see goods before they are bought. If dissatisfaction or error arise, correction can easily be made. The retailer has a good opportunity to study the tastes of the consumer, and can keep in stock goods that readily sell. He can, if he is a careful observer and possesses good judgment, adapt his stock to local needs. The selling field of the retailer is more or less restricted. In small places, it does not extend beyond the village or town, and a few miles of surrounding country. The area is nevertheless greatly extended as the city of location increases in size. In small cities and towns, the question

**Credit.**

of credit demands careful consideration. It is difficult to run a strictly cash business. Some competitor, in order to attract trade, gives credit, and very often forces others to do the same. Every inducement is used to attract trade, and in the eyes of many farmers and artisans, credit is very great. Credit is a serious handicap to many retail enterprises. In large cities, a retail store can be run on a cash basis, yet frequently it is necessary to give the extra inducement of credit. To refuse credit may often lose a customer, and to give may mean a loss of money. The retailer should use his discretion, and not handicap his business by being too liberal in granting credit.

Two primary reasons, value and service, may be given, why buyers are attracted to particular stores for their goods. A third, style, is added in the case of clothing, millinery and other goods, in which it is a requisite. The average buyer wishes to get the best value for his money, and the most important consideration underlying value is quality. When a firm has gained the confidence of the consuming public, and established its business name as standing only for goods of the highest quality, it has acquired a valuable asset in attracting trade. It takes years, thousands of dollars in advertising, and a most rigid inspection system to acquire this reputation, but when obtained, it repays a hundred fold every cent spent.

**Reasons  
why cus-  
tomers are  
attracted  
to stores.**

The best value for the price is what attracts. The seller who can convince the public that he is giving the best value for the price has little difficulty in selling his goods. When the confidence of the people is once secured, every precaution should be taken to keep it, and this can be done by preventing inferior goods from getting on the market. Many sellers believe that if confidence is once secured, then the people can be duped by poorer grades. It will not take the public long to know that they are being deceived, and once that is realized, the old established standard may not be regained. Give people the best value for their money, and the seller need not fear the inroads of competition.

**Honesty  
in price and  
value.**

A seller should give most careful attention to the services rendered by his establishment. Good service makes many demands, the most important of which are

as follows: prompt attention to orders; prompt and courteous attention to customers; prompt delivery of goods; promising nothing which cannot be done; rigidly carrying out all promises; delivering goods only in the grades ordered; taking every precaution that mistakes are not made, and if made, prompt attention to their correction; prompt attention to all dissatisfaction and settlement of the difficulty without arousing the enmity of the customer; and, lastly, attention, especially in a retail business, to the comfort of customers. Attention to all these demands assists in building up trade and establishing a firm's name with the public. The successful business man finds it profitable to pay particular attention to service, and to see that all its demands are strictly carried out.

Style is a necessary requisite in many goods. People wish to have their clothes, hats, and shoes of the latest style. Progressive merchants should carefully study their goods and carry only those of the latest style. The connection of a merchant's name with that of always carrying the latest styles, is a valuable asset not only in getting trade, but in holding it. A purchaser buys where he can get the best value, best service and latest style, at the lowest price.

The customer is the objective point in all selling. Customers must be obtained before goods are sold. An important problem is to get a customer to make his first purchase, and a second, more important perhaps than the first, is to retain his trade in the future. The first sale oftentimes comes

**Service and its demands.**

**Style as a factor in selling.**

**Obtaining and holding customers.**

through chance. A person wishes goods and goes to the first store to get them. A salesman frequently gets his first order in the same way. A storekeeper needs goods, a salesman offers them, and if his price is satisfactory, the sale is easily made. The first sale is ordinarily a more difficult task. The first step is to attract people to the goods. This may be done by advertising, displays or salesmen. The second, and more difficult, is to arouse interest and to create a desire to possess, culminating in a sale. A serious problem is to get people, after making the first purchase, to come back for future purchases. If a merchant solves this, he adds a valuable asset to his business. It is still better to so please a customer that he will not only return, but will induce his friends to come to trade. Success in selling consists in getting new customers and in making them so well pleased, that they will not only become permanent, but act as solicitors for new trade.

Satisfaction is a great power in holding customers. It rests on the relation of merchant or manufacturer with those who buy. Satisfaction depends upon services rendered, goods sold, value received, and the feeling that goods are not misrepresented, that all errors will be corrected and that goods, if unsatisfactory, will be exchanged, or money refunded. Satisfied customers are a valuable asset to a business. Good will, which is often valued at large sums, consists of satisfied customers. An important factor in business building, and one greater than present profits, is the confidence and good will of customers, as they assure the profits and success of the future.

Satisfaction,  
the chief  
power in  
holding  
customers.

What is the view point of customers? This is a question which manufacturers and traders frequently neglect to consider. It is a serious one in supplying foreign as well as domestic markets. The Germans were the first to adopt scientific methods in studying the wants of the people with whom they wished to trade, or with whom they were trading. The kind, the brand and the style of goods which the people demanded were manufactured and sent to their markets. The result was that the Germans were soon leading other countries in competition in foreign markets. The Americans were the last to learn the necessity of studying the wants of customers, and much has been done in this respect during the past few years. They have learned that people know what kind of goods they want, and that with competition so keen, the grade of goods needed must be supplied to get a market. Many traders in foreign markets find it profitable to send representatives to carefully study the wants of the people, and to find out the kind of goods they need. At the present time, the consuls in different parts of the world assist American manufacturers by making reports from time to time as to what are the needs of the people in their territories, and the kind of goods they will buy. The manufacturer for the domestic trade, as well as for the foreign, cannot neglect paying careful attention to the wants of his prospective buyers.

A study of customers in a retail business is a very important essential. This is done in small establishments by the manager, but in large establishments clerks

Importance  
of view-  
point of  
customers  
in foreign  
markets.

assist in the work. The wishes, wants, likes and dislikes are obtained in a way that does not offend customers. The manager finds out what his customers want. This is important, because it enables him to keep in stock goods which readily sell. Every retail merchant should make it his aim to know the wants of his customers, and to meet their demands. The four elements in successful retailing may be summarized as: buying at right prices; selling at a profit; successfully forecasting demand so that when out of season few goods will be left for bargain counters; and satisfying customers.

**Study of customers essential in retail business.**

A knowledge of markets, which, as we have seen, is very essential in buying, is equally so in the selling of many products. Conditions that in any way affect the prices of goods should be studied. Demand increasing and supply normal, a seller may increase his profits by an early increase in price. Many sellers, not aware of an increased demand, do not raise prices as early as they could, and thus lose profits. Supply may increase and demand be normal, or the supply remain steady and the demand decrease. The shrewd seller, by studying market conditions, foresees this changed relation between supply and demand, and if he is forced to dispose of a supply of goods, a slight decrease in price before others in the market, enables him to dispose of his goods to better advantage than he could by waiting for some other trader to lower the price. Sellers find it to their advantage to thoroughly know market conditions so as to forecast future changes in supply and demand for their goods.

**Knowledge of market conditions essential.**

**Forecasting future changes in supply and demand.**

Selling was, until quite recently, looked upon as an art, and it was thought that it could not be reduced to scientific principles, but the increased interest **Sales manager, his qualities.** which has, during the past few years, been given to conducting business has brought selling under consideration, and it is gradually being reduced to principles and to a science. In the success of every manufacturing and mercantile enterprise, great responsibility rests upon the selling department. It should be in charge of a competent sales manager, and upon his ability frequently depends the financial success of the business. The successful sales manager is usually a graduate from the ranks of salesmen. Experience and success as a salesman are prerequisites. He should be thoroughly acquainted with the policies and methods of his firm. His knowledge of goods, competitors in the field and market conditions affecting supply and demand, should be accurate and thorough.

The sales manager should be a good student of human nature, able to read character quickly and accurately, and a good judge of men. Much of the success of a sales force depends upon the ability **Requisites in selecting men.** to select men. In selling, more depends perhaps upon the men than upon the goods. The selection of new men should be careful, deliberate, and not hasty. Care should be exercised in ascertaining many facts regarding applicants, as for example, infirmities that might affect health, health for the past few years, habits, educational training, care about person and dress, success or failure in previous work, ease in meeting people, control of self, and honesty, integrity and sincerity in work.



Proper selection should be followed by efficient methods in training. No salesman is ready to represent a firm and sell immediately upon selection. Even if experienced and successful as a salesman, some time should be spent in getting acquainted with the business methods of the firm, the character of the goods to be sold and a knowledge of their manufacture. For years, business men believed that experience was the sole means of developing a salesman. As in many vocations, success largely depends upon natural endowments, but it is also due to the development of these gifts. Careful training preceding selling is an absolute necessity. The untrained and inexperienced man must necessarily make mistakes, and every mistake is more or less costly to a business. Training better prepares salesmen for their work, and a large number of the mistakes of the inexperienced are avoided. Training is a business proposition for every manufacturer or merchant, and as such should be given careful consideration. A growing practice is to have a rigid course of training, and to insist that all qualify by making a certain standard before they are sent on the road, or behind the counter.

Training of  
salesmen a  
necessity.

Every salesman should be carefully and thoroughly trained in the fundamental principles of salesmanship. How to express himself in correct English, dress properly, approach a customer, attract attention, arouse interest, and bring a customer to action in a sale, are some of the fundamentals necessary in salesmanship. The methods used in training depend largely upon the goods to be

Funda-  
mental  
principles  
of sales-  
manship.

sold, and upon the past experience of the men. Although the general principles are the same, yet their application varies in every instance, with the kind of product sold. The method used in selling harvesting machinery is different from that used in selling dress-goods. If the article to be sold is simple, the training is different from that used, if it is a complicated piece of machinery. In every instance, the training should be along practical business lines. A salesman, if trained, gives better service, and increases his value to himself, as well as to the firm. Training is not complete unless it includes a thorough knowledge of the character of the goods, the raw materials which enter into their manufacture and the processes of their production. A new salesman with successful experience should be carefully examined in the principles, and if satisfactory, the elementary training may be omitted. Competition is so keen at present that thorough training is absolutely necessary.

A salesman should be able to talk intelligently. Bad English reflects not only upon the salesman, but upon the house which he represents. A salesman should be able to express his ideas clearly, easily and forcefully in good and correct English. If a prospective salesman has not had a thorough training in English, he should receive one. This should be insisted upon as a necessary prerequisite.

The question of dress is an important one, and it is a necessity to be well dressed. The salesman is the representative of the house, and it is through him that many form their opinion concerning the

Good  
English a  
necessity.

Dress an  
essential.

firm. People like to do business with a prosperous firm and the sign of prosperity that many see is a well-dressed representative. Dress can be overdone. All mannerisms and extremely noticeable features in dress should be avoided, as customers' attention is attracted to them and not to the goods offered for sale. Good taste in dress must in many cases be cultivated. Many sales managers take special pains to instruct their men to dress properly. A strong, robust, good-looking, well-dressed salesman always attracts attention. Good dress often smoothes the way for conversation, which frequently leads to arousing interest in goods, when it would otherwise have been difficult to approach a prospective customer. Not only to be well dressed, but to be clean, neat and tidy in person are requisites which must be scrupulously followed out. Physique and health as well as care of self and dress are essentials of success, and special attention should be paid to the acquiring and development of these qualities.

To be  
well  
dressed  
brings  
business.

The manner of approaching a customer is important and frequently a sale depends upon it. Few customers like to do business with strangers. A salesman should meet his customer as an equal, and make him feel as though he were talking with an acquaintance. Many customers like to be called by name and many have particular likes and dislikes. Learn the name and something about a customer before calling. This assists in knowing how to approach him. Some are won by a hearty handshake while others consider it too familiar. A salesman should closely follow

Manner of  
approaching  
a customer.

the expression of his customer's face and be able to tell the proper way to greet him. The first greeting often means a great deal. Every precaution should be taken to greet a customer in such a way that he will not be offended, and this demands that a salesman be a close student of human nature.

A salesman should first get the attention of a customer; secondly, arouse his interest; thirdly, create a desire

**Factors necessary to close a sale.** to possess, and fourthly, convince him to possess or make the sale. Interest if properly retained often develops into desire without

further effort of the salesman. The desire for goods must be brought to a climax in a sale. Many salesmen can lead customers to the point of closing but are unable to make the sale. The power to close is a valuable asset in any salesman. In selling, there is a time when the buyer is ready to close, but few salesmen are able to recognize this. They lead the buyer to the point, but they do not know the proper moment for decisive action, and the sale is lost. Frequently it is necessary to send a special salesman to assist in closing. The factors necessary in closing are, knowledge of human nature, attention to everything a buyer says, judicious offering of suggestions, talking only when necessary, meeting all criticism, knowing when desire is created and when the buyer is ready to act, and lastly, the ability to convert the resolution into a sale. Training in the

**Training.** requisites for making a sale is the most difficult task in training for salesmanship. A successful method is to place the prospective salesman in charge of a thoroughly competent man. Mock sales

should be made under the supervision of the instructor; the student taking first, the part of the customer, and then that of the salesman. This part of the training should be as practical as possible, and continued until a certain standard has been reached.

An essential part of training is the mastery of the making, and uses of the goods to be sold. A salesman before being allowed to represent a firm in selling goods should be acquainted with every detail concerning them, not only their making, but the materials of which they are made. If possible, he should be acquainted with the materials used in the making of competitors' goods. This is essential and important for purposes of comparison, and proving the quality of his own goods over those of competitors. It is advisable for a salesman to spend some time in a factory, where goods are made, so as to thoroughly master every detail of their making. Knowing thoroughly the materials and qualities out of which goods are made, the processes of manufacture, the special care taken to insure the quality of the finished product, causes of cost, and competitors' goods, are essentials for every salesman.

Many sales managers think it is necessary to have standard selling talks. They prepare and put in set form, the introduction and all arguments to be used in selling goods. Sometimes, answers to possible objections and criticisms are prepared. These talks are memorized by the salesmen. The serious objection is that a set talk will not do for all customers. No two customers are the same, and what

Thorough  
knowledge  
of goods  
necessary.

Standard  
selling  
talks.

will persuade in one case, will not in another. A more satisfactory method is to carefully train salesmen, and leave to them the language and the arguments to be used, in approaching and presenting goods to a customer.

Suggestion is a great force when leading from desire to sale. A salesman should be able to assist a customer by suitable suggestions. These should be made at the right time, and in the proper way, so as to lead a customer to believe that the suggestions are his own. A valuable quality is that of being able to decide for a customer, and at the same time make him feel as you do without his knowing it. Many sales are actually made by salesmen, yet the customers firmly believe that they alone made the decision to purchase, and would be offended, if told that they simply followed the suggestions of the salesman.

A salesman should not force goods upon a customer, or appear too anxious to make a sale. He should pay particular attention to the quality, style and service of his goods, and leave the price in the background. It is always unwise to argue with a customer. Openly disputing what a customer has to say often loses a sale. A salesman should know what arguments to advance, and be quick to perceive when he has said enough. He should be able accurately to read at a glance what pleases or displeases his customer. Wherever possible, the customer should be allowed to do the talking. The salesman should listen attentively and assist in making the decision by occasional suggestions.

A salesman should have absolute command of himself,

and it matters not what circumstances arise, or what a customer says, he should not lose his temper, but be calm, cool and deliberate. Frequently when a customer finds that his outbursts of temper are calmly met, he is gradually won over and often makes a purchase. Tact is a necessity for the successful salesman. It is that, which enables a man to adapt himself to circumstances, and allows him to see when he is using the wrong method and to change to meet a customer. A salesman should be temperate, never be seen in bad company, in disreputable places, or under the influence of liquor. These things lower the dignity of a salesman and reflect upon the house which he represents. He should have confidence in the goods which he is selling. Knowledge of his goods, and faith in their qualities are essential for enthusiasm and work. Enthusiasm is valuable as frequently it is the force which attracts, and holds the attention of the customer. The one great essential is confidence in himself. With this lacking, success is doubtful. This should be associated with confidence in employer and the goods sold.

Control,  
tact and  
confidence,  
three fac-  
tors in  
success.

In conversation with a customer, a salesman should never use the name of a competitor unless it cannot be avoided. Under no circumstances should he speak disparagingly of a competitor's goods nor abuse or slander a competitor or his representative. If a customer brings into conversation a competitor's name, a salesman should frankly admit whatever merit his goods possess and be at all times ready to draw the attention of the customer to some

Speak well  
of a com-  
petitor and  
his goods.

greater merit in his own. Few things detract so much from the dignity of a salesman, or the house which he represents, as to hear him abuse or slander a competitor or his representative, and stamp as not worthy of consideration, goods in competition with his own.

Some salesmen find it profitable to collect and keep information about customers. Every customer has usually strong points or special likings. These can be ascertained from time to time by salesmen, collected and kept on record for use, when customers are approached for sale. A salesman consults the records before he goes to a customer. John Brown is a golf enthusiast. A salesman looks up some points about the game, and often gains confidence which it would otherwise be difficult to acquire. Information concerning customers is always of great service to salesmen. It frequently allows the making of an easy approach and forming an acquaintance, which materially assists in making sales.

In a retail store, a salesman should be carefully studied and placed in a position suited to his inclination. He should believe in what he is selling. A salesman was given a particular style of goods to sell and failed. On investigation, it was learned that he did not believe in the style, and was not in sympathy with it. He was changed to selling a style which he liked and was at once successful. Considerable harm is frequently done by putting men in wrong places.

Salesmen may be divided into the following classes, — traveling, city and store. Traveling salesmen call on customers out of the town or city where the enterprise

**Importance  
of informa-  
tion about  
customers.**

**Choice of  
place im-  
portant.**



is situated. City salesmen sell in the city, while store salesmen wait upon customers over the counter. They differ only with respect to the class of customers which they reach. The general principles of salesmanship are essential in all classes, but the application varies with the goods sold.

**Classes of  
salesmen.**

A sales manager should have a thorough knowledge of trade conditions. These may be divided into general and local. The former is treated under Market. The latter demands careful study of buyers and competitors in the field. The most effective source for obtaining such information is through salesmen. A salesman should always be on the alert for information that might be of service to his employer. Competitors' goods in the field should be carefully studied. What is their quality? In what form are they sold? Are they more attractive than those you sell? What are the views of consumers? What is the character of the advertising of the competitor? What suggestions can be made to increase demand? Are any changes made in competitors' prices? Is there likelihood of any change in demand? These are some of the questions which a salesman should be able to answer. The information is of the greatest importance in making changes to meet customers' wishes, and competitors in the field.

**Knowledge  
of trade  
conditions.**

A sales manager should have some means of keeping in touch with his salesmen. This is done by reports. There are usually two kinds, daily and weekly. The daily are generally sent in on post cards, but at the end of the week, a carefully detailed report of

**Reports.**

the week's work is sent. Reports keep sales managers always in touch with the work of their men. They are essential, and a properly arranged system adds very much to the efficiency of a business.

### QUESTIONS

1. Why is selling an important factor in the success of every enterprise?
2. Mention the different methods of selling. What care should be exercised in the choice of a method?
3. Why is the jobber a necessity in our distributing system? What efforts have been made to eliminate him?
4. Give the advantages and disadvantages of the mail order business. Give the reasons for its rapid growth.
5. Why are value, service and style three important factors in selling? What are the requirements for good service?
6. What methods may be used for making the first sale? Give the importance of satisfaction in holding customers.
7. What is the importance of the viewpoint of customers in (a) foreign markets, (b) domestic markets (c) in a retail business? How may the viewpoint be obtained?
8. Why is a knowledge of market conditions essential? What advantages arise therefrom?
9. What qualities are necessary for a successful sales manager? Mention the requisites necessary in selecting salesmen.
10. What are the fundamental principles of salesmanship? How may they be acquired?
11. What part has education, dress and enthusiasm in the making of sales? Why should a salesman have confidence in self, his employer and the goods which he sells?

12. Why is the power to close a sale so important in selling? Mention the factors necessary to close.

13. What is the importance of suggestion in selling? Why are control, tact and confidence three factors in success?

14. How should a competitor or his goods be treated? Mention some of the methods of obtaining an advantage over a competitor.

15. What advantages arise from a knowledge of trade conditions? What local information is it necessary to collect and how is it obtained?

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## CHAPTER XII

### PRINCIPLES OF ADVERTISING

**Advertising  
a necessity  
in our in-  
dustrial  
expansion.** THE increase in the size of the business unit, and the production of goods on a larger scale increased competition in every branch of our industrial system. Increased competition compelled manufacturers to make a close study of every detail of manufacturing from the raw materials to the finished product. This resulted on the one hand in lowering costs through elimination of wastes and the use of more efficient methods, and on the other, in new methods of increasing demand through attracting the attention of the consuming public. The former evolved cost accounting and various efficiency methods, reaching a climax in scientific management, and the latter made advertising a powerful factor in business, and reduced its study almost to a science. Fifty years ago, the average manufacturer produced few articles for the local market. He personally knew many of his customers, and public advertising of his goods was seldom thought necessary. Markets were later extended, and the small factory gave way to the large plant. The increased production had to be sold and new demands created. The developing of the industrial system demanded new methods of advertising and it, in its turn, proved a powerful factor in the extension of markets.

Formerly, advertising was chiefly speculative. It received little attention and was not thought worthy of study. The last twenty-five years have completely revolutionized advertising, and reduced it to fundamental principles, the mastery of which requires careful study. Advertising has passed from the speculative stage to that where it is an absolute necessity, and, like anything else, may be good or bad. Bad is simply a waste of money, while good is one of the most potent factors in business success. A few years ago, many business men did not consider advertising important, but it has increased in importance until to-day, it would be difficult to find any business of ordinary size which does not advertise.

**Advertising  
formerly  
speculative  
but now  
a necessity.**

Advertising is a powerful creative force in business. It causes new needs, multiplies human wants, and creates new demands. The creating of a new demand is its primary object, yet its results are more far-reaching. To-day, it is realized that it is the strongest possible factor for assuring business stability. The solid, stable business is largely maintained through its use. Advertising has accordingly a twofold purpose, to create a demand for goods, and to maintain the demand already created.

**Twofold  
purpose  
of advertis-  
ing.**

Advertising may be divided into two classes, general and direct. The former is to create or maintain a general demand for a good, while the latter is for the purpose of selling direct to the consumer. Manufacturers constitute the great body of general advertisers, while merchants and manufacturers who sell direct to consumers form the latter class. Com-

**Classes of  
advertising.**

petition has frequently forced manufacturers to tell people the good qualities of their goods in order to create a demand for them. **General.** Manufacturers, through advertising, have often caused a demand to arise for their goods, and forced retailers to place their goods on their shelves. General advertising is national in scope, and requires careful study to obtain results.

Direct advertising was, until the last decade, chiefly local, but the introduction of the mail-order business, and selling direct to consumer has made its field **Direct.** in many cases national. Mail-order advertising is the most difficult of direct advertising, and requires careful study and skill to write successfully. Local competition has forced the local merchant to **National and local.** advertise, and to him advertising is a necessity. Local advertising is simple as compared with general or mail order.

Advertising has recently assumed the more dignified name of publicity. It has been defined as the art of creating a new want. This is not exclusive, **The meaning of advertising.** because it has an extensive use in keeping before people goods, that they are either using or have used. Advertising reminds them of the goods, and often prevents the using of others. The human mind must be jogged from time to time, or it will forget. Much advertising is thus used for assuring the continual use of a good. It has far-reaching results, and many a manufacturer maintains his trade through effective advertising. A function of advertising is to make wants where there are none existing, and to re-

awaken desires which lie dormant. People wish to be told what will give them pleasure, provide more comfort, and bring health, wealth and happiness. Advertising is well defined as the art of acquainting people with the name, nature and uses of a salable commodity.

No hard and fast rules can be formed to be rigidly followed in writing advertisements, or in methods of advertising. Form and methods vary with mediums, goods to be advertised, and the public to be reached. An advertisement suitable for a local paper would frequently be of little value in a magazine. Nevertheless, underlying all advertising, there are certain fundamental principles, which should be known, given due consideration and carefully heeded.

No rigid  
rules for  
advertising.

The first thought of an advertiser is to present his advertisement in a way to attract attention. The problem of attracting the eye is important, and one which requires careful study. Mere attraction is not enough. No value results from an advertisement which possesses only the power to make people look. The attraction should be followed by an arousing of interest. How to present an advertisement in a way to arouse the interest of the reader is the business of the writer. It requires careful study and is not work for an amateur. Formerly people thought any one who could write English could write advertising matter. It is surprising how the development of the past twenty-five years has changed this view. This accounts for the poor opinion which people formerly had of advertising.

The chief  
aim of  
advertising.

To attract.  
To interest.

Now advertising is approaching a profession and requires careful training and study.

The interest aroused should be intensified and prolonged so that it is converted into a desire to possess.

**To arouse  
desire to  
possess.** The third great problem is to present an advertisement in such a way that it will arouse in the reader a desire to possess. Many

advertisements attract and interest but do not go further, while many carry the reader to a desire to possess, but do not convince that it is beneficial to possess. When this has been done, the purpose of the advertisement is accomplished. To attract, to interest, to cause a desire to possess, to decide to possess are the chief aims of advertising. To have all present is the test of a good advertisement and of a good advertisement writer. Many try to write advertisements but few succeed. Advertisements must sell goods or they are of no value to the person advertising. To sell as many goods as possible is the ambition of the advertisement writer. That measures his worth in the eyes of the business world, and decides the salary that he is to receive. To make an advertisement of the greatest possible value, the aforementioned qualities must be developed to the highest possible degree.

Advertising is ineffective unless it influences the reader. Before an advertisement influences, it must be seen. A good display of some kind is of the first importance, because unless an advertisement catches the reader's eye, as he hastily scans a paper, all may be lost. The problem is to attract the attention of those likely to be interested and not mere

**Different  
methods of  
attracting  
attention.**



curiosity seekers. Various methods are used to attract, but the adoption of one depends largely upon the character of the goods to be advertised and the class of readers which it is desired to reach. The chief methods are as follows: illustrations; strong headlines; strong, forcible sentences at the opening; colors; ornaments; spaces; preferred positions; and type. The most common method employed is the use of pictures. Most people are attracted by pictures which serve to quickly catch the eye. Pictures may be divided into two classes, those which illustrate the product advertised, and those which are not related, but are used simply to attract, and in no way explain the character or uses of the product. The first class is called illustrations, and the second, pictures.

An illustration is that by which an object is elucidated or explained. It should be designed so as clearly to present the article and directly reach the interests of the people. Anything which catches the eye does not necessarily produce buying convictions. The illustration should show some advantages of the good or the good as it is. When an article can be shown in use, the illustration becomes much stronger. An illustration is useless without selling value, for without it, it ceases to be an advertising illustration, and falls short of its main purpose. An illustration should explain itself. When it requires the text to make the meaning clear, it places an unfair burden on the text. It should be plain, well-executed, artistic and not freakish, because if so, it detracts from the copy. A simple, plain illustration, properly chosen, allows the eye to

Essentials  
of a good  
illustration.

read rapidly, and the mind to easily comprehend. The choice depends largely upon the nature of the product to be advertised, and the people to be reached. Some products, like automobiles, should always be advertised, with illustrations. The eye is critical and to be attracted so as to leave a favorable impression demands something pleasing. A repulsive picture frequently at-

An illustration should be pleasing to the eye.

tracts but fails to arouse interest in the advertisement of which it is a part. An illustration should be pleasing to the eye and should not offend the feelings even of sensitive people.

Everybody likes to be reminded of what is pleasing and agreeable, while many turn away from what disgusts. Good taste should be exercised in the choice. Those which suggest action are better than those which do not. An illustration should never mislead, misrepresent, or send the thoughts in a wrong direction. It should draw and yet be free from deceit. Not only must an illustration be carefully selected, but there should be harmony in arrangement, spacing, and in the type used. The following are a few effective illustrations:

Various forms of good illustrations.

tions: the article; the article in the package as offered for sale; the package alone; a dainty dish made from the article; the source of the article; processes in making; and effect of use. A harmonious and artistic arrangement with a pleasing illustration connected in some way with a good copy has valuable drawing powers in an advertisement.

It must be admitted that pictures interest every one, young or old. Formerly many believed that any kind

of a picture was suitable, and that the only requirement for attraction was a picture, irrespective of what it portrayed. Something more is needed than mere attraction. Many believe that all a picture has to do is to attract; if this were so, pictures would often be better suited than illustrations. A picture which simply attracts may serve to detract from the copy. This is frequently the case, and such a picture lessens the value of an advertisement. A picture for a picture's sake is nonsensical. An illustration and not a picture constitutes a very fundamental part of advertising. The picture must be an illustration connecting the copy, and the article advertised in some striking manner. It must be interesting for the purpose of leading the reader to the contents of the copy. An illustration should assist the text in making the appeal stronger. It requires skill to properly combine the illustration with the text in order to make both assist in selling. Pictures which are not illustrations are of little value in advertising. Successful advertising demands a good illustration to attract, and the use of meaningless pictures should be avoided.

**Pictures.**

**Objections to their use.**

A third method frequently employed for catching the eye is the use of attractive headlines. This is the use of words at the head of the copy of such a nature and form as to attract attention. The average eye cannot easily take in at a glance more than four words, so it is advisable not to have the headline contain more than this number. The words should be simple, forcible and suggest some quality of the article advertised. They should easily catch the eye,

**Headlines.**  
**Essentials.**

and hold the attention for a sufficient time to allow it to read that which follows. The type used should be sufficiently large so that it can be read at a distance. Meaningless words, which have no connection with the rest of the copy, should never be used as they are of no value to the copy. The best headline is one of not more than four forcible words, closely connected with that which follows, and suggestive of some of the qualities of the article advertised.

In many cases, neither headlines nor pictures are used. The opening sentences serve as the attracting force. They should be short, simple, clear and forcible. Plain, forcible statements about the article are best, but in every case a good suggestive illustration or headline greatly increases the attracting power of an advertisement.

Formerly, but not frequently at present, writers thought that decorations of various forms and shapes, even at times grotesque, attracted the eye.

There is no doubt but what anything out of the ordinary, or freakish, obtains a passing glance, but the eye as a rule sees only the decorated part, and passes over that, which it was intended, it should see and read. Decoration if not flashy or grotesque possesses some attracting power, but it is advisable to find other means of attracting attention.

Attraction to a copy is increased by its place in the newspaper or magazine. Certain places are more likely to be noticed than others, and in consequence command much higher prices. In magazines, the standard or preferred positions are as

Opening  
sentences  
as means  
of attrac-  
tion.

Decorations.

How used?

Preferred  
positions.

follows : back cover page ; first inside cover page, front ; first inside cover page, back ; first page facing reading matter ; and page facing last page of reading matter. In every case, the choice of position and its relative importance depends upon the character of the goods to be advertised, and the kind of copy that is used. Preferred positions are found in every medium of advertising, and in every case, the positions which have the greatest chance of being seen by the largest number of people command the higher prices. The advisability of paying large sums for such places depends in a great measure upon the product advertised, and the selling results largely depend upon the form of copy.

Attraction may be increased by making copy plain and not crowded, by using carefully selected type, and plenty of white spaces. Some advertisers have a particular style of type used only in their copy, and this gives an individuality which often attracts. Absence of counter attractions increases the chances of a copy to be seen. Care should be exercised in choice of a place, that is, as free as possible from counter attractions. If inartistic pictures, freakish cuts, or illustrated copies are near, they detract from the attention, that would be paid to a copy if these were missing. Few articles are suited to be advertised in colors. Colors are usually to be avoided, as they detract from the copy, and lessen the value of the advertisement.

Other  
means of  
attraction.

The display adopted to attract should do more than merely catch a glance of the eye. It should hold the eye long enough to get an interest and read the part of the copy which immediately follows. This is the test of

a good display. It emphasizes the importance of having a clear and close connection between it, and the rest of the copy. Attraction has no value unless it holds the eye long enough to arouse interest and read what the copy has to say. The display which holds and arouses sufficient interest to read, is the one which tests the ability of the writer, and is the one which is the most valuable to the advertiser.

**Demands  
of good  
display.**

After attention is gained, the most vital part of advertising is the copy. Copy is a technical name given to the text-matter of an advertisement. Many make the mistake of making the illustration

**Copy.**

do all the work, and pay little heed to the copy. A good illustration attracts the attention long enough for the eye to read the copy which contains the selling points expressed in a way to convince the reader to buy the

**Close rela-  
tion be-  
tween copy  
and illus-  
tration.**

article. There should be a close connection between the idea brought out by the illustration, and the thought expressed in the copy. A good advertisement is not one that people talk about, but one that they act upon. This demands a good copy, assisted by a good illustration in making the appeal.

The chief preparation in the writing of copy is to pick out the selling points of the article to be advertised.

**Importance  
of selling  
points.**

People wish to know facts, and the information given should be confined to plain facts. Brevity is a virtue in advertising, but it should not be such as to omit vital information. A copy should always be interesting and never tiresome. Facts should be put in proper logical order, but if care is not

exercised, there is likely to be a hard, metallic ring. A copy should be written in a natural, informal and colloquial style, and full of human interest. The writer who can put into his copy a soothing, personal touch, and make the appeal human has a valuable quality.

**Human  
interest in  
copy.**

The copy should be written in clear and simple language. Arguments should be confined to facts about the article, forcible, clear and convincing. Unsupported and unconnected statements have no place in a copy. Sentences should be short, concise and pointed. Long words and long sentences should in every instance be avoided. Everything told in copy should be so simple, and in such clear language, as not to require either time or study to be easily understood by the average reader. The selling points should be so forcibly expressed, and so clearly stated, that their full import can be immediately grasped. Everything should be specific, as nothing is more tiresome than wordy generalities. People are not interested in a pretty picture or novel combination of words, but want to know how to get value for their money. If a writer pays heed to this, and makes his advertisement answer the following questions, he will be successful in making his advertisement sell goods. Does the advertisement create a need and desire for the article? Does the advertisement convince the reader that the article advertised is the one to buy? Are the special merits so forcibly told as to become strongly fixed in the mind of the reader? The copy is good in proportion as it makes a terse, reasonable appeal to the reader, and makes him decide to buy.

**Essentials  
for a good  
copy.**

An advertisement which entertains the eye, and does not make an impression will not make sales. The mind

The advertisement should not only entertain the eye but must make an impression.

has the peculiar faculty of seeing things without spending any thought upon them. A person can look at a crowd, and see many faces, but his mind may be far away. The advertisement which only gets attention, but does not penetrate the reasoning powers, has little value.

The average person when he sees an advertisement is in a more or less indifferent mood, and his thoughts are as a rule on other things. He may give it a casual glance, but does not vacate his mind to the thought which it suggests. The arguments must penetrate and make a favorable impression, or the purpose of the advertisement is lost.

One weakness of many advertisements is lack of appeal to the senses, and the reasons for this defect are

An advertisement should appeal to the senses.

twofold. An appeal to any sense except sight is not easily made in type. Secondly, many writers are lacking in descriptive powers, and cannot describe articles in a way

to appeal to the senses. The chief quality of an article of food is taste. Many never think of this, and pay no attention to taste, but describe a food product as though it had none. How much more impressive would it be to make the advertisement bespeak some superb quality or daintiness, and impart such a zest, that it makes the mouth water, and one feel as though he must stop on the way home and buy the article. Few advertisers appreciate the weakness of the ordinary man and woman for good things to eat. Writers



should describe foods in such a way that readers immediately want what they describe. Every advertisement of food, to make a strong appeal, should emphasize taste. Pianos are frequently advertised as though they had no tone, perfumery as though no smell, and shoes as though no comfort in the wearing. Wherever possible, an advertisement should appeal directly to the senses, and when a writer is able to do this, the selling powers of the advertisement are greatly increased.

Many copies are written in such a way that the statements made may apply to many articles. The copy should possess personality. The statements made about an article should individualize the article, and be of such a nature, that they cannot be used for any other. This requires a mastery of English, and ability to express the salient points of an article in a way which is restricted to it. The power to do so is a valuable asset to a copy writer.

Confusion frequently arises between advertisements which advertise different kinds of goods. It is surprising how many people confuse adjacent copies. Many writers, to avoid confusion, mark their advertisements by borders. Plain borders, if not too decorative, may be used advantageously, but wide spaces serve the same purpose. If the writer would take special pains to individualize his copy, and make it, and the display distinctive, so that it would be difficult to interpret it in any way except as the writer desired, it would avoid a considerable part of the confusion. The name and address of the advertiser should be clearly and plainly given. Many advertisers fail to recog-

Individual-  
ity in copy.

Confusion  
in adver-  
tisements.

nize this and others gain from their advertisements. Those who fail to put their names in larger type or in some distinctive form would be surprised, if they knew how many possible buyers read their advertisements, and fail to notice the advertiser's name. Too great emphasis cannot be placed upon making the advertisement distinctive, and having the name of the advertiser prominently and conspicuously given. These are the two great factors to observe in order to prevent confusion and loss by readers not noticing the names of advertisers.

**Prominence  
given to  
name and  
address  
of adver-  
tiser.**

Many writers try to crowd too much into a copy.

**Crowding  
should be  
avoided.**

It is advisable to advertise one article or a few allied articles at a time. A crowded copy printed in small type is very often not read.

Repetition is an important factor in advertising, as interest in an article is often aroused by the number of times it comes to the attention of a prospective buyer. To exactly repeat the copy every time makes it lacking in interest; nevertheless the retaining of one or more prominent features serves as a connecting link, and emphasizes the fact, that the same firm is placing the article upon the market. A trade name or trade-mark emblem is good in an advertisement, as it gives something concrete around which the popular conception of the advertising institution can be built. As people become acquainted with a constantly advertised emblem, it becomes a valuable asset. Different arguments or different goods should be emphasized in every advertisement. The advertisement which retains some recognizable features, but varies in detail from time

**Value of  
repetition.**

to time serves as the best drawing one. There is a similarity which shows that the selling firm is the same, but at the same time, there is a sufficient change from time to time to avoid monotony.

An article to be successfully sold through advertising should contain some merit. Advertising cannot make merit where it does not exist. Misrepresentation and falsehood rebound with triple force upon the advertising firm. The average American buyer is a good judge of values, and knows if what is said about an article is true or false. The public may be fooled once, but it does not forget. Every statement made concerning an article should be positive information and plain truth. Truth is the foundation of confidence, and over 90 per cent of the world's trade is done on confidence. Anything but the truth lowers the dignity of a firm, and lessens one of the most valuable assets of a business house, — the confidence of the people.

**Merit**  
necessary in  
an article.

**Truth is**  
essential.

Space in a medium is costly and should be used to the best advantage. Advertising is a waste of money unless some positive returns follow. The amount of space to be used should be decided by the business man advertising. Decision depends upon the goods to be sold, the public to be reached, and the kind of medium used. The size of space varies according to the means of the advertiser. It is seldom advisable to go to either extreme, but to be uniform in the amount of space used. Size of space does not sell goods, but that depends entirely upon what the space contains. Judgment should be exercised in the selec-

**Space.**

tion of space, and skill should be used in filling the space with suitable copy. In advertising a new article, it is frequently advisable to make a big display, and then reduce to smaller copy. With a certain amount for publicity, it is far better to have a small copy continuously than a large display occasionally.

The buying public is always prejudiced against spasmodic advertising. It usually arouses the suspicion that the purpose of the advertiser is to deceive. Confidence, on the other hand, is aroused by continuity in advertising. It gives the impression of stability and permanence, and people respect these qualities in a business house. Are seasonal goods to have only seasonal advertising? This depends upon the character of the goods. It would be folly to advertise Christmas and Easter novelties except in season. Again, it is a waste of money to advertise skates and sleds in summer, or swimming suits and straw hats in winter. With goods like summer underwear, it is advisable to advertise the year round. It keeps the goods, and the name of the sellers before the public, and the continual reminding bears fruit, when the season arrives. The advertising of such goods when not in season carries considerable weight with the public, and gives the idea of value in the goods, and permanency in business. If such is not the case, people think that it would not pay to advertise. It is poor advertising to use large copy one day and none the next, as a product should be kept continually before the public. Successful advertising is continuous and not spasmodic.

**Essentials  
for selection.**

**Advertising  
should be  
continuous  
and not  
spasmodic.**

A copy writer should thoroughly know the goods to be advertised, as a careful knowledge of goods is as necessary as it is in selling. A salesman should know good selling points of his goods, so that he may be efficient in selling. A copy writer should be master of the selling points of his goods, and be able to express them in good, plain, forcible words, so that they arouse interest and attention, and make the public decide to buy. Many writers serve some time in the factory producing the goods to be advertised. Some occasionally visit factories making the same kind of goods as well as make frequent visits to their own. A copy writer should be a close student of human nature. He should know the classes who buy his goods. This is absolutely necessary because an advertisement which will appeal to one class will not to another. A writer should know the likes and dislikes of his buyers. This enables him to select those selling points which appeal, and to present them in a way to interest and convince. A copy writer should not forget that he is presenting the selling qualities to convince the buyer. This is important because frequently space is taken in flattering the president, or some member of the firm. Space so taken represents so much loss. The sole consideration is the article advertised, and the aim is to present it to buyers in the most attractive and most convincing manner so that goods will be sold.

A person is judged by the company he keeps, and the same is true of advertising. An advertisement fuses more or less with the medium in which it appears. Many mediums advertise only cheap inferior goods, while others

advertise those of the highest grade. Suspicion is at once cast upon the quality of diamonds if advertised in a medium filled with advertisements of cheap jewelry. A person advertising an article should select the medium where articles of the same quality are advertised. It is a waste of money for a seller of cheap jewelry to advertise in *The Ladies' Home Journal* or a seller of diamonds in *Comfort*.

The question often arises as to what are the best drawing points of an article. The selection of the drawing points varies to a certain extent with the article advertised. Those for one article may not be possible for another. The selection should be left to the discretion and judgment of the copywriter. A number of good drawing points as arranged by a well known authority is as follows: wholesomeness; durability; reliability of firm; pleasure connected with use of article; and popularity of use. The following used by many copy writers are examples of bad taste: boasting; letters of recommendation; accounts of the prosperity of the firm; and the extent of the plant. One of the first class tends to increase the confidence of the people, and this assists in making a decision to buy, while one of the second, arouses suspicion and decreases the value of an advertisement.

A command upon the reader to use the article advertised can frequently be made advantageously in the copy. A person ordinarily resents receiving a command to do an act. Nevertheless, he often refuses to obey the command, and yet later does the very thing refused, forgetting that the com-

Quality of  
magazine  
and article  
fuse.

Drawing  
points of  
advertis-  
ment.

Direct com-  
mand: its  
importance.

mand to act had been previously received, and now believing that he is acting upon his own initiative. Many people can suggest the doing of an act in such a way, that the person commanded, does so without realizing that he is following the command of another. If a writer can in a few, simple, direct, suggestive words force his command upon a reader, so that he acts unconsciously, he possesses a valuable power. A command so worded can frequently be used advantageously and increases the drawing power of a copy.

Advertisers have always found it difficult to measure results from advertisements in various publications.

"Please mention this magazine" was formerly the only method, and is still extensively used.

**Means of  
measuring  
publicity.**

Later, the person answering the advertisement

was asked to cut it out, and send to the advertiser.

Finally it was discovered that the name was sufficient, so a blank in the advertisement was left for name and address with directions to send this. This is the origin of the

return coupon, which was originally intended

**The coupon.**

as a means of obtaining information about the

extent of the publicity of advertisements. The advertiser soon discovered that the coupon possessed great value in obtaining inquiries. Frequently a coupon makes an appeal, and induces the reader to answer an advertisement, and if it were not present, many would not trouble themselves about answering. The dotted lines marking off a coupon attract attention, and the coupon, at the same time, makes it easy to answer an advertisement. The return coupon is an important factor in advertising and deserves careful consideration.

## QUESTIONS

1. What is the function of advertising in our industrial system? Account for its rapid growth.
2. What are the differences between national and direct advertising? Give the essentials of each.
3. In what way is advertising a creative force in business? How is it used to maintain the stability of a business?
4. What are the aims in advertising? Give the essentials necessary for each.
5. Name the different methods to attract attention. What are the essentials in the choice of a method?
6. What is the function of an illustration? Why are illustrations preferred to pictures? Why are mere pictures objectionable?
7. What is a copy? What are the fundamentals in copy writing?
8. Why does appealing to the senses increase the drawing power of an advertisement?
9. What is individuality in a copy? Give its importance. How is it obtained?
10. Give the value of repetition in advertising. How can it best be obtained?
11. Why is continuity in advertising important? What are the objections to spasmodic advertising?
12. Why is a knowledge of the goods essential to the copy writer? How is it best obtained?
13. What are good drawing points? Mention several mistakes made in the selection of drawing points.
14. What is direct command? When can it be advantageously used? What care should be taken in its use?
15. What is the function of the coupon in advertising? Give its evolution. How does it assist in making the appeal?



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## CHAPTER XIII

### MEDIUMS OF ADVERTISING

AN advertisement should not only be properly written, but be displayed where prospective buyers can read it.

**Mediums.** Anything used to display an advertisement is a medium. Mediums are of many varieties and include magazines, catalogues, newspapers, trade journals, booklets, house organs, letters, calendars, blotters, handbills, billboards, electric displays, street cars and novelties. Each has a distinctive value

**Varieties.** in itself. One may be especially adapted for the presenting to the public of one article and not be suited to another. The medium chosen should be one which will be read by the people from whom future buyers can be obtained. Success in advertising depends not only upon the writing of the advertisement, but also upon the choice of the medium to reach prospective buyers.

The choice of a medium demands a thorough study of the article to be advertised and the people to be reached.

**Essentials in the choice of a medium.** The method of distributing goods to be advertised demands careful attention. Goods distributed directly to consumers require different mediums from those sold to jobbers. Advertisements for the purpose of creating or maintaining a general demand require different mediums from those used to

cause direct demand. Another important consideration is the class of people to be reached. An article should be advertised in the medium read by the people to whom sales are expected to be made. To decide upon the proper medium, careful attention should be paid to the method of distribution, the character of the article to be advertised, and the classes of people to be reached.

Some people call monthly publications magazines, and weekly, periodicals. A weekly with a nation-wide circulation, like the *Saturday Evening Post*, has, as far as advertising is concerned, the chief characteristics of a magazine, while the local weekly paper has those of a daily newspaper. Periodicals may be dismissed with the mention that those possessing a wide circulation will be classed as magazines, and those with a local circulation as newspapers. The magazine offers a distinct field for advertising. It is the chief medium used for creating demand and, as such, is the favorite one with manufacturers. With the recent development of the mail-order business, the magazine has come into favor as especially adapted to it. The magazine has a wide circulation, and is of service in advertising those articles for which it is intended to create a general demand or to sell over a large area. The average life of a magazine is from three to twelve weeks. People usually read it at their leisure, and if anything attracts them, take time to carefully read and reflect. Magazines are printed on better paper than newspapers and as such offer opportunities for higher grade illustrations. One disadvantage is the time required to have copy ready in advance for

Magazine.

Characteristics of magazine advertising.

appearance in the following issue. If the goods advertised are subject to sudden changes, as a result of trade or other conditions, a serious change may take place between the time the advertisement is presented, and the date of its appearance. Magazines vary in quality and standard from *Comfort* to *The Ladies' Home Journal*. Between these two extremes, there are many grades which are read by different classes of people. The charges in each vary with the circulation and the standard of the classes who read the magazine.

The newspaper and the magazine are the two chief mediums in advertising. The newspaper is a very profitable medium when the article advertised

**Newspaper.**

has a local demand. Local merchants find it

indispensable in giving publicity to their goods. The average newspaper has a life of a day and it is read by people in a hurry and those who do not take time to

**Character-  
istics of  
newspaper  
advertising.**

reflect. The advertisement should be simple, clear and direct. Too many articles should

not be advertised at once as it is advisable to make daily specialties. If advertising a single article, too many arguments should not be used in one issue, because it is better to confine each issue to one or two.

Small type should always be avoided. The type used should be of sufficient size to allow the copy to be easily read. Cuts of specialties are very desirable.

A very important factor, and one which should be especially emphasized, is the price. Price is often a great drawing power. Merchants make a practice of having one or more leaders, with reductions in price to induce people

to come to their store to buy. An easily readable ad-

vertisement and attractive prices are the two important features of local advertising.

The character of a newspaper is determined by finding out the class of people who read it. The newspaper is read by large and varied classes. As there are many different classes of people, so there are different standards of papers. In large cities, there is no absolute rule to be followed in the choice between morning and afternoon papers. A decision can be made only after a study of the habits of the people and of the goods to be advertised. Advertising that is to be quickly effective must include daily papers. Newspapers fill a distinctive demand for local advertising, and extreme care should be taken in selecting a paper which is read by the people to whom the advertiser wishes to sell the goods advertised.

The trade journal, as the name implies, is a paper published in the interests of a particular trade, or line of business. Every trade or business of importance has its distinctive trade journal. The circulation is small as compared with magazines or newspapers. The readers are interested in everything connected with the trade or business which the paper represents. If advertising is confined to goods of the trade, the advertiser can be certain that an appeal will be made to persons interested in them. The trade paper reaches probable buyers, and as such, forms a valuable medium for advertising. Manufacturers advertise extensively to reach the consumer and increase the demand for their products. They in turn use the trade journal to reach dealers and jobbers in order to

Standards  
of news-  
papers.

Trade  
journal.

Its limited  
field.

interest and convince them to carry the goods. Trade journals are receiving greater prominence as advertising mediums, and are being more extensively used by manufacturers and jobbers.

In selling by mail, the booklet has a special field and is a necessity. As the name implies, it is a little book

**Booklet.** of usually not more than ten thousand words

nor less than two thousand, published by a manufacturer, jobber, or retailer to assist in selling his goods. Booklets differ in shape, size and form. Oddity in size may with certain goods possess some attractive features, but business men usually find the simple book form preferable. The average customer wishes to learn facts about goods, and is attracted by having them presented in a simple, businesslike way. The present tendency in advertising is toward simplicity in presentation. Simple, forceful business methods, stating facts and giving arguments why goods should be purchased, give the best results, and should be strictly followed in booklets. The outward appearance deserves attention, and frequently decides whether or not a booklet is to be read before being discarded to the waste-paper basket. A booklet should be made of a fine quality of paper, and neat in appearance. Good paper, workmanship and taste

**Essentials for appearance.** in selecting illustrations make a booklet refined in appearance and attractive. Elaborate designs, flashy colors, and freakish pictures should in every instance be avoided. Many prefer to have the cover contain a good half-tone picture illustrating in some way the good to be sold. Many, however, prefer a plain colored cover with gilt lettering and edges.

A booklet should attract, interest, arouse desire to possess, and convince the reader to buy. The greater part of the selling must be borne by it. Many booklets miss this main purpose, and are dry, uninteresting, rambling, and obscure, and as such, are a waste of money. Short interesting stories should be written explaining something about the article in the making or in use. Every story should be woven around the article and bring out some important quality or selling point. The story should be told in a conversational, simple, interesting and direct way. Two or three such stories may be included in a booklet. Every purchaser is interested in knowing facts, and the presentation of these in a story requires considerable ability. The story should be supplemented with good half-tone illustrations, illustrating in some way the article. Booklets connected with the sale of food products may give uses and illustrations of dishes made therefrom. This increases their importance to the housewife and insures their preservation. The booklet if properly written is a strong force in selling. Many advertisers make use of a serial booklet, that is, instead of making the appeal in one booklet, three or four are used. Each should present in an interesting way important selling points of the good, and should follow one another at short intervals. They should be sufficiently attractive and interesting to be read, and should be of such a nature as to bring out in logical order, the chief selling points of the goods. The booklets should be accompanied by good personal letters, and if such are used, the serial booklet may possess greater drawing power, and carry more conviction than the single one.

Essentials  
in writing  
a booklet.

There are three classes of persons to whom booklets are sent: first, those who use the goods advertised and are always ready to buy; secondly, those who send for one and are interested; thirdly, those who are only likely to buy and are sent a copy with a view to arousing interest. The first class will be always more or less interested in the booklet as long as it presents facts in an interesting way. Persons who send for a booklet will likely send for those of competitors, comparison will be made and each must hold its own not only in appearance, but in the presentation of facts and arguments, as to why its article should be purchased in preference to all others. An attractive, interesting and forceful presentation of the selling points of an article should be the characteristic of a booklet, in order that it may serve its purpose to attract, arouse and convince. Booklets should not be distributed promiscuously, but care should be taken to reach prospective buyers. A too free distribution lessens their force with the public. Good judgment and extreme care not only in preparation, but distribution adds to the selling force of every booklet.

One of the recent developments in advertising is the house organ. It is a publication, usually issued monthly by a manufacturer, jobber or retailer in the interest of his particular business. The ordinary newspaper or magazine form is best to attract and hold the attention of the people. The latter seems to be preferred but the size is usually much smaller than the ordinary magazine. The house organ has proved profitable and is a popular method of advertising.



Thousands of these little magazines are published monthly and are issued in every state in the union.

House organs may be divided into three distinct classes: for agents, salesmen and branches; for consumers; and for dealers. The first class is distinct in itself, and is not nearly so difficult to write as the other two. It gives in-

**Classes of  
house  
organs.**

structions, offers suggestions, and discusses new ideas and matters pertaining to the business in general. Interest is maintained by articles on salesmanship, advertising and other subjects closely allied to the particular business. Frequently important information of a general nature is found. The hardest task comes in writing a publication that will appeal to consumers and dealers. First, it must have an attractive appearance, or it will often pass to the wastebasket without being read. The chief consideration is to have the little magazine read. The cover, quality of paper, character of the work and quality of the pictures should attract and arouse interest. Many people judge a house by the quality and style of its printed matter. A poorly printed paper, poor quality of paper, unattractive and cheap in appearance, lowers the prestige of a house, and is not only injurious to business but a waste of money.

**Necessity  
of good  
appearance.**

The subject-matter should be carefully selected, well written and interesting. Articles on subjects related to the business, telling how materials are purchased, made or shipped, arouse interest in the average reader. The articles should give information and facts to attract and hold interest.

**Subject-  
matter of  
house  
organs.**

Sometimes items of a general nature may be used, but care should be exercised in not making their use too extensive. Everything should be written in a simple, conversational way, and should be so simply told as to be understood by the average reader. All technical terms should be avoided. The articles should be liberally sprinkled with good half-tone pictures relating to the contents of the magazine. It is not advisable to burden the little publication with direct advertising matter, so keep the publisher's business in the background. The house organ to dealers should keep them posted concerning new ideas about the goods made or handled. A serious mistake is often found in always trying to sell. On the other hand, the dealer should be given advice and suggestions as to how to sell his goods. It is as important to the manufacturer as it is to the dealer to remove the goods from the shelves. Interesting articles by well-known men on management, salesmanship, advertising and topics of general interest to dealers arouse interest, and insure the reading of the magazine. Good judgment should be exercised in selecting a mailing list. House organs are sent to regular customers as well as to prospective buyers. They should not be scattered broadcast or given out promiscuously. The house organ offers an opportunity to present in interesting form, facts and illustrations which educate prospective buyers to an understanding of the goods and of the house. A good house organ is an important factor in establishing confidence and getting new business. It is a new factor in advertising and its use is being daily extended.

**Important features.**

**Characteristics of reading matter.**

A new demand for advertising has recently developed as the result of the increase of selling by mail. The mail-order business has proved a new source of profit for magazine and newspaper. The writing of advertisements to sell goods by mail tests the ability of the copy-writer. Advertising space is costly and every superfluous word means so much loss. A copy-writer should be a close student of human nature, know thoroughly the class of people to whom he is to make an appeal, and be able to put himself in their position and see the advertisement as they would see it. If he can do this, it will assist him in the choice of selling points, and the presentation of these in the most attractive manner. If an advertiser is the seller of many articles, one of the purposes of the advertisement is to get the reader sufficiently interested to send for a catalogue. A new article should be specialized in each issue. This is far better than attempting to crowd many articles into one advertisement as nothing is so bad as crowding or confusion in copy. The advertiser should pay particular attention to the type, and see that it is of sufficient size to be easily read. One of the chief demands of a copy-writer in writing copy to sell goods by mail is that he be a master of the English language. It requires considerable skill and ability to express the selling points of an article in a convincing manner. The essentials of a good mail-order advertisement are the cut, the price, a few statements about the article, a few arguments why a person should buy the article, clear readable type, no crowding, no superfluous words, the name and address of the advertiser em-

Mail-order  
advertising.

Buyer's  
viewpoint.

Essentials  
of adver-  
tisement.

phasized by having more prominent type, and everything told in simple, clear and forceful English. The copy should bring results, directly or indirectly, through selling goods; if not, the advertisement does not pay for the money expended, and the copy-writer is a failure.

If the advertisement arouses interest and brings an inquiry by mail, the important problem is to convert the aroused interest into desire and determination to buy the article. The following up

**Follow-up system.**

of the inquiry or the follow-up system is daily receiving more attention. Many advertisements are for the purpose of obtaining inquiries. If an effective follow-up system is in operation, many inquiries may be con-

verted into sales. A letter should open the way, and in each letter some printed matter

**Importance.**

should be inclosed. Extreme care should be exercised in the selection of what is to be inclosed; it may be either a folder, circular or booklet. The inclosure should carry a description and the chief selling points of the article. It should be carefully prepared and give specific reasons why the article should be adopted in

preference to others. If no answer, it is not advisable to send more than three letters, each containing a different inclosure. All in-

**Requirements for inclosure.**

losures should aim at presenting in a clear, logical manner the selling points of the article and not more than one should be sent at a time.

The letter is the vital part of the follow-up system. It is the connecting link between the individual and the goods. It should eliminate all business talk and serve

as an introduction. The main purpose is to put the prospective buyer in a responsive mood, and pave the way for the printed matter. The letter should draw attention to the inclosure. Good stationery should be used. A letter on cheap stationery, gotten out in a slovenly manner, reflects upon the sender and has little value in getting business. The signature should not be typewritten, but signed with pen and ink, as it adds to the sincerity and purpose of the letter. Everything should be done to make the letter personal and as little formal as possible. The sending of a letter with a two-cent stamp arouses curiosity, as to whether or not, it contains something of importance, and invariably causes it to be read. A large majority of letters are sent with a one-cent stamp, and that very fact causes a great many to be cast into the waste-basket without as much as a glance.

**Require-  
ments of  
letter.**

Booklets, catalogues, and letters without magazine or newspaper advertising are sometimes used to arouse interest, but the usual way is to use magazine or newspaper or both. In the former case, lists of names of prospective purchasers are obtained and to them personal letters and inclosures are sent. Letters with booklets or catalogues are used alone and to advantage in selling single articles, but when many are offered for sale, they should be used as supplementary to magazine and newspaper advertising. The follow-up system is of equal importance with the advertisement in the mail-order business, and the two cannot be separated.

**Means of  
obtaining  
inquiries.**

Where many articles are offered for sale, the catalogue

is a necessary prerequisite of the mail-order business.

**The catalogue.**

Where only one or two articles are advertised, the booklet is sometimes semi-catalogue in

form. The old-fashioned catalogue was usually filled with lists of conundrums, popular recipes, meaning of

**Old form.**

dreams, and generalities about goods advertised. The book was usually cheap in ap-

pearance, poorly printed and unattractive. The increase in the mail-order business has revolutionized the catalogue. Many mail-order advertisements have for their chief purpose, the getting of the catalogue into the hands

**Preparation.**

of buyers. Mail-order firms frequently rely upon the catalogue not only to interest

but to sell goods, and such being the case, too great emphasis cannot be placed upon its preparation.

**Appearance.**

It should not be cheap in appearance, have an attractive cover and contain many

illustrations of goods. The catalogue should interest, convince and sell goods, and great care should be

taken in the preparation of its contents. Technical terms should not be used because they are not un-

derstood by the average reader and generalities should in every instance be avoided. Goods should be ex-

plained in a way to arouse interest, to show their superiority over others and why they should be

purchased. Illustrations should be well executed and show the goods as they really are. People

**Contents.**

prefer to see what they are buying, and

if they are not able to do so, the only other way is to see an illustration. The price should not be too

much in the foreground because it will be found no

matter where it is placed. The catalogue often decides the success of a firm yet many pay little attention to it. Columns of figures, numerous dimensions and prices are dry, and do not make a catalogue attractive, interesting or convincing. Facts brought out in a clear, concise form are what arouse interest and convince. The one goal should be to convince the reader that the goods advertised should be purchased in preference to others. This should be borne in mind because it is the chief consideration in selling. The catalogue is the great force in selling by mail, and the greatest pains should be taken in its preparation.

A medium which has recently increased in importance and use is the calendar. Calendars are universally distributed and are seen everywhere. Formerly they were confined almost exclusively to the insurance business, later they were extended to railroads and banks, while at present, they are used by manufacturers, jobbers and retailers. They are generally used to advertise a firm rather than a product. Calendars may be divided into two classes, office and home. The mounting of an office calendar should be plain and simple, without pictures or illustrations, and with the days and numbers displayed in large type so as to be easily seen across a large room. The wording should be limited to the name of the advertiser, and one or two simple forcible statements about the high standard of his business methods, or the goods made or distributed. The calendar for home use is of a different character. The mounting is more or less artistic and fre-

**Calendar.**

**Office.**

**Essentials.**

**Home.**

quently coloring effects are used to advantage. Many exaggerate the display and by so doing decrease the value of the calendar for advertising. It should always be born in mind that the chief value of the calendar is its mission

**Essentials.** to serve as such. The display should be attractive with the days and numbers in sufficiently large type to be read at a distance. Many calendars lose a large part of their advertising value by having the calendar in small type, and in an inconspicuous place. Many of those so made are not preserved, and at an early date, find their way to the waste-paper basket. The calendar which is kept and serves as a valuable advertising medium is one having a mounting containing a design suitable to the business or a pleasing one of a general nature, the calendar displayed in clear prominent type, the address of the advertiser, and one or two simple statements concerning the firm advertised.

The blotter is used in various shapes, sizes and quantities for advertising. It is a cheap medium, but nevertheless proper judgment should be given to  
**Blotter.** its use. The advertiser should present his blotter in a form that will be used and not discarded.

Care should be taken in the use of colors, as flashy colors detract, and decrease the value of the medium. A

**Requirements for a good blotter.** blotter attached to a good quality of paper and used as a blotter on one side gives the best results. A neatly and artistically designed cover, consisting of a picture, the name and address of the advertiser, one or two forcible arguments in behalf of the firm or product advertised, and attached to a good quality of blotting paper gives the best value as a blotter.



The service of the blotter is increased by having the calendar of the month in large, clear type. Such blotters should be distributed at the end of each month. Blotters serve only as a supplementary medium, and if properly designed, give good returns for the money expended.

Retail merchants find handbills a valuable advertising medium. Price and value are the important factors to be considered. Handbills are used to attract people to stores, and their chief value con-

**Handbills.**

sists in offering such attractions as induce customers to go to the advertising stores to buy. The chief attraction is the price. A few articles in constant demand should be selected, and advertised at

**Price.**

a sufficient reduction in price to induce people to come to buy. The bargain advertised should be real and not fake. The average American buyer has a good idea of values, and knows when an advertisement is deceiving. Many advertisers lose a great part of the value of their advertising by trying to deceive the buying public. A merchant should remember that the most valuable asset of his business is the confidence of the people in his methods and in his goods. He should be care-

**Importance  
of value.**

ful to do nothing to shake this confidence. Advertising fake values is more costly than no advertising. The service in the store, and the value given should be such as to induce a new customer to return and become a regular one. This is the great value of advertising. How often have we heard a buyer remark on reading a handbill, "I will not go because before he advertised fakes." Merchants should

**Effects of  
advertising  
fake values.**

advertise and give real values, and handbill advertising will be profitable. Many know they are deceiving, but make the mistake of thinking others do not. Merchants should remember that every fake, or deception is a boomerang which rebounds with double force on the advertiser.

The giving of samples is one of the oldest methods in advertising, and one which is still extensively used.

**Free samples.** Free sample advertising was originally confined to the drug and patent medicine business, but recently manufacturers of food products are making use of it. The sample should be well packed in attractive covers and contain sufficient to give a person an idea of the quality of the contents, and make him wish for more. Advertising by free samples is limited to certain products. Interest in some articles can be aroused by samples, while it is a waste of money with others. The advertiser should carefully study his product, and the people to be reached, before deciding upon the adoption of this method of advertising.

**Essentials of success of this method.** The free-sample method should not be used unless the article is adapted to its use. The great risk is obtaining honest distribution. Many manufacturers send out their own employees, and others distribute through reliable distributing agencies. The success of samples depends largely upon their method of distribution. Those given away promiscuously at fairs, or upon the street, do not have the value that they would if properly distributed.

**Risks.** Out-door advertising in its various forms occupies a very important place in advertising. Many manufac-

turers and jobbers spend yearly large sums on this kind of publicity. It makes possible the reaching of classes of people which other mediums do not. **Necessity of out-door advertising.** Magazines and newspapers are read by the educated and intelligent classes, but many in this enlightened country very seldom read either. Again, many people are so occupied in their business affairs, that they do not take time to read or give thought to advertising matter. To these classes, the out-door advertiser displays illustrations or short sentences along railroads, country highways, or city streets where these people pass.

Out-door advertising can be divided into four classes,—posters, painted signs, electrical displays and miscellaneous. **Kinds of out-door advertising.** The first class consists of displays of painted bills or posters. These are displayed on buildings, fences, or specially constructed stands. Illustrations are invariably used as a means of attracting attention. Coloring is used to a greater extent than in any other medium of advertising, as frequently many colors are used in an illustration. Posters are measured in terms of the unit sheet, twenty-eight by forty-two inches and a single advertisement **Posters.** usually varies in size from three to twenty-eight of these sheets. The prices vary with the kind of illustration used, the size of the poster, the location of the stand, and the quantity ordered. Recently a new development of bill-posting has come into prominence. The billboard is illuminated at night by electricity, and this makes the advertisement more valuable at night than during the day.

The designing of a poster, and the writing of the copy require considerable skill and decide its value as an advertising medium. The illustration should be connected with the goods advertised in such a way as to familiarize the public with their form as offered for sale, or with their good qualities. People read signs while passing, and consequently the whole message should be read at a glance. Crowding is a serious fault in a copy. People fail to grasp crowded copy at a glance, and few succeed in getting the message. Strong arguments in favor of the goods, or forcible suggestions should be given in a few chosen words. To make a poster simply a reminder is poor advertising. It should emphasize strong selling points or offer forcible suggestions. A poster should be well printed, have a good illustration and a carefully worded copy.

The painted sign on a fence, rock or the side of a building has long been familiar in most civilized countries, but only within recent years has its use as an advertising medium been reduced to a business basis. Signs may be divided into two classes, regular and chance. The regular is usually painted on a stand built and maintained for the purpose. Examples may be seen along public thoroughfares, and the streets of towns and cities. The chance sign is painted on fences, rocks or buildings. It is of a more temporary nature than the former, as the fence or building may be taken down, destroyed, or its painted area hidden by the erection of buildings.

The same skill and care in choosing the illustration, and

in writing the copy is required as with posters. The price is based upon the square foot, or the running foot of space occupied. A stand or a side of a building is usually charged by the square foot and a fence by the running foot. The price varies with location, and many choice locations are sold to the highest bidder. The price for fences around buildings or vacant lots usually runs from twenty-five to fifty cents per running foot per month. This price is based upon yearly contracts, and includes the original painting, and repainting at the end of six months. The charge for town and city stands averages about five dollars a month for fifty square feet with an increase if elaborate pictorial illustrations are required. Contracts are usually made for a year, and few are taken for less than six months.

Require-  
ments of a  
sign.

Price for  
signs.

Electricity has been an important factor in our recent industrial development, and its influence has been felt in every field of industrial activity. Its use in advertising has been so increased that the electric sign is recognized as an important medium of publicity. Less than twenty years ago, the first electric sign made its appearance on Broadway, and within these two decades, electric advertising has become an established business, representing an investment of millions of dollars, and in use in every part of the civilized world.

The electric  
sign.

Its recent  
growth.

The sign should not fail to attract and draw attention to the article advertised. It matters not how attractive a sign may be, it is of little commercial value if it does not rivet the observer's attention on the article.

The Chariot Race, the most attractive sign on Broadway, has little commercial value, as not one per cent of the people who see it notice the names of the advertisers. The choice of an illustration for an electric sign is one of the most important tasks in advertising. It demands the skill and ability of an expert. It should assist the copy in riveting attention on some selling point of the article. The commercial value of every electric sign depends upon the convincing manner in which the selling points of the article are forced upon the observer. Many advertisers fail to realize this, and as a result, a great part of the drawing power and value of an electric sign is lost.

The wording of a copy demands careful study and ability. The whole sign must be received at a glance, so the copy should not be crowded but consist of a few well-chosen words. The words should tell the selling story convincingly and forcibly. The choice depends entirely upon the article advertised. No one set of words can be used for two different articles. The article to be advertised should be carefully studied, its strongest selling points discovered, and a few words chosen to forcibly draw the attention of the observer to one or more of these. An electric sign is not a primary source of advertising, but should be used as an auxiliary to magazine and newspaper. It is not adapted to all articles but only to those in constant demand and everyday use. Manufacturers and jobbers find the electric sign a valuable auxiliary in national advertising, while it is being more extensively used in retail publicity.

**Essentials  
for an  
attractive  
sign.**

**Essentials  
for a good  
copy.**

The fourth class of out-door advertising cannot be easily defined as it is limited only by human ingenuity. It includes the use of advertising vehicles, motor cars, floats, banners and persons. This class occupies quite a prominent place in advertising. Thousands of manufacturers, jobbers and retailers use one or another of these novel methods for gaining publicity.

Miscellaneous advertising.

Kinds.

The modern street car has proven of service not only for carrying passengers, but as a medium for advertising. A large percentage of the population of a town or city rides daily in the street cars. Many of the passengers have nothing to engage their attention other than the people in the car. Advantage was taken of this enforced idleness, and from a meager beginning a few years ago, street-car advertising has developed into a well-organized business, bringing in a yearly revenue of several million dollars.

The street-car as a medium for advertising.

Street-car signs are daily read by people of every class from the poorest to the wealthiest. They reach not only consumers, but jobbers and retailers. Street-car signs, in serving as a national as well as a local advertising medium, place manufacturers, jobbers and retailers on an equal footing. Street-car advertising, however, is not of sufficient force to stand alone, but should be used supplementary to magazine or newspaper. It is not adapted to all classes of goods and judgment should be used in its adoption. The article to be advertised should be considered, and if an article of popular consumption and in daily demand, the street car will prove a valuable supplementary medium.

Classes reached.

The size of a street-car card is eleven by twenty-one inches, and this gives a limited space for advertising matter. The first consideration is to attract attention, and the best attraction is a good illustration of the article or one of its uses. The copy should not be crowded nor should meaningless words be used. The copy should consist of a few well-chosen words giving a reason why the article should be purchased, or offering a suggestion why the article would be of service to the user. No more than one selling point should be used in a single copy. The copy should be changed frequently, the illustration remaining, but a different selling point used each time. If the advertisement is for local publicity, the name of the advertiser should be emphasized by being placed in larger type. The copy must be read at a distance so it should be in large clear type. A street-car advertisement is more than a reminder. It should carry a strong direct appeal to purchase the article advertised. As much, if not more skill is required in writing copy for street-car cards as for magazine advertising.

Novelties play an important rôle in advertising. Everything used in advertising outside of that prepared by a printing press may be classed under the term advertising novelties. Advertising novelties comprise everything of a manufactured nature, such as clocks, penholders, pencils, paper weights, inkstands, rulers, articles of paper, wood pulp, bone, wood, tin, copper and brass. A novelty may be either something of practical use to the prospective customer or of value as an ornament. It is

**Requisites  
for a good  
advertisement.**

**Novelties.**

**Essentials  
in novelty  
advertising.**



absurd to have for an advertising novelty an article of no use to the receiver. It should have a use or it will not be preserved. The name of the advertising firm should be distinct and plain, but not too conspicuous. A novelty which is so covered with advertising as to be of no practical use to the receiver is worse than none. A novelty should have sufficient interest or usefulness to be attractive. Novelties should not be given away promiscuously but should be distributed with judgment. They may be of considerable value as an advertising medium, or represent a loss. Everything depends upon the judgment of the advertiser in the choice of the article, its attraction or usefulness, and its method of distribution.

### QUESTIONS

1. What is a medium? Name the different varieties. What are the essentials in the choice of a medium?
2. When are magazines to be used in advertising? What are the characteristics of magazine advertising?
3. What is the function of the newspaper in advertising? What are the fundamentals of newspaper advertising?
4. Why is the field of the trade journal limited in advertising?
5. Why is good appearance important in a booklet? What are the essentials in writing a booklet?
6. What is the purpose of a house organ? Name the different kinds, and give the essentials of each. What are the essentials of text-matter for a house organ?
7. What are the essentials for advertising to sell by mail? Why is it necessary for a copy-writer to be a student of human nature?
8. What is the purpose of the follow-up system? Why should the inclosure receive careful attention?

9. What are the chief requirements for a letter? Why is the letter an important factor in advertising?
10. What is the function of the catalogue in advertising? What are the fundamentals for a catalogue?
11. When may calendars and blotters be advantageously used in advertising? What are the requirements for a calendar? What for a blotter?
12. What are the chief factors in handbill advertising? What is free sample advertising?
13. Account for the growing importance of poster advertising. Name varieties and give characteristics of each.
14. What are the essentials for an effective electric sign? What goods may be advertised in this way?
15. What are the advantages of street-car advertising? What are the requisites for a good car sign?

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## CHAPTER XIV

### MONEY AND CREDIT

EXCHANGEABILITY is one of the most important essentials of our industrial system. Its early form, or the trading of one article for another, is known as barter, and is found among all primitive people. The barter system, in the earliest stages of civilization, caused great inconvenience to primitive people. If a native had a spear to dispose of, he had to wait until he met another who wanted a spear, and at the same time, had a hatchet to give which he wanted. Should the spear and hatchet come together, exchange or barter might be prevented because one of the natives thought his article worth more than the other. The inconveniences connected with barter soon led to the selection of an article acceptable to the people, and freely receivable in exchange for all articles. This article chosen to serve as the medium of exchange is called money, no matter what its material or form.

The commodity chosen to serve as money during the early days of economic development, was usually one of general demand. It is claimed that the earliest money consisted of articles used for personal adornment. Shells, beads, beaver skins, dried fish, cattle, tea, salt, cocoanuts, slug shots, corn and wheat are a few of the articles which have been at dif-

Evolution  
of money.

Materials  
used as  
money.

ferent times and in different places used as money. Metals were gradually introduced, and they soon took the place of other commodities. As communities progressed, and exchanges increased, the base metals, lead, tin, iron, copper and bronze, were supplanted by silver and gold. Gold is the best adapted of all metals to serve as a medium of exchange, and this explains its universal adoption as money.

Money performs several functions in industrial society. The first and earliest function to develop was to serve as

<b>Functions of money.</b>	a medium of exchange. With the development of this function, other articles began to be measured in terms of the medium, and this gave
<b>Medium of exchange.</b>	us the second function, namely, to serve as a standard of value. The beginning of the practice of hoarding precious metals introduced a third function, a store of value. People when they hoarded
<b>Standard of value.</b>	their wealth wanted some assurance that when they wished it, its value would not be materially changed. Money to-day is not as a rule kept by the average man long enough to make its function as
<b>Store of value.</b>	a store of value very important. Nevertheless in business, a great deal depends upon faith in the safety of the value stored in gold, and this is the quality which gives gold its strength as a reserve fund to sustain credit instruments and credit currency.
<b>Standard for deferred payments.</b>	When the ownership of property became more secure, loaning took the place of hoarding, and the contracting of debts introduced the question of the value of the money in which debts were in the future to be paid. Debts may be made payable

in any commodity but they are usually payable in money which becomes the standard for deferred payments. Credit did not assume any importance until money had acquired the four preceding functions. The development of credit increased the importance of the store of value function, and at the same time, introduced the fifth and last function, to serve as a reserve for credit operations. The amount of money necessary to maintain credit varies in different countries, and in the same country at different times, but it should be sufficient to maintain confidence, which is the basis of credit transactions.

**A basis for  
credit  
operations.**

Many years elapsed between the first use of metals as money and the introduction of coinage. Coinage is the stamping of a piece of metal for use as money so as to make known its denomination, value, weight and fineness. Gold and silver are too soft in their pure state to stand the wear of ordinary usage. In order to make the coins more durable, the pure metal is hardened by being mixed with copper.

**Coinage.**

**Standard  
metal.**

The hardened metal is called standard to distinguish it from pure metal. The practice in the United States and in many foreign countries is to use nine parts pure metal to one part copper alloy, and coins made from this compound are said to be nine tenths fine. The value of alloy in this country is not counted in the value of the coins, so the amount of pure metal is the only truth of importance to be associated with a coin, as for instance, the ten-dollar gold piece should be known as containing 232.2 grains of pure and not 258 grains of standard gold.

Free coinage implies a right to take metal to the mint in unlimited quantities and have it converted into coins. The government frequently restricts to itself the right of coinage. It buys pure metal, converts it into coins, and does not allow the people to exchange the metal at the mint for coins. In the United States, there is free coinage of gold, but the government restricts to itself the coinage of all other coins.

**Free and restricted coinage.**

Standard money is money of which the value depends upon the value of the material contained, the stamp serving merely as a guarantee of the quantity of pure metal. Such coins are received everywhere, because they contain their face value in the pure metal of which they are made. Gold coins are the only examples of standard money in our country.

**Standard and subsidiary coins.**

Token or subsidiary money consists of coins whose bullion value is less than their face. All coins except gold in the United States are subsidiary. Current subsidiary coins may be divided into three classes: the silver dollar; subsidiary silver consisting of dimes, quarters, and half dollars; and minor coins consisting of cents and nickels.

The redemption of subsidiary coins in standard money is one of the chief ways of adjusting the amount coined to the actual needs of the people. The only way to adjust the supply to the demand is to allow all who wish subsidiary coins to obtain

**Redemption of silver coins.**

them in exchange for lawful money, and to be given lawful money whenever they present them in suitable sums for redemption. The Treasurer of the United States redeems in lawful money on demand, all subsidiary

coins except silver dollars when presented in sums of twenty dollars or any multiple thereof.

The silver dollar is not kept at a parity with gold by means of the existing system of redemption. There is no law requiring the Treasurer, in express terms, The silver dollar. to redeem silver dollars in gold. Several attempts have been made to obtain such a law, but the silver followers have always been strong enough to defeat it. The method of removing an oversupply of silver dollars from circulation may be called indirect redemption. The Treasury in all payments to itself receives silver dollars on an equality with gold, and in making payments does not give silver dollars to any one not wishing them. As long as the Treasury receives silver dollars on an equality with gold, and pays out only gold, there is a complete system of redemption although it is indirect. The Treasury is duty-bound and forced by statute to maintain the silver dollar at a parity with gold. The indirect system is not perfect, and the only way of warding off emergencies which might destroy it, is to pass a law providing for the redemption of silver dollars in gold.

When individuals are allowed to take gold or silver bullion to the mint and have it coined without charge, coinage is gratuitous. The expenses in- Charges for coinage. volved are charged upon the nation in the same way as ordinary public expenditures. The government sometimes asks a fee just sufficient to cover the expense of coinage, and sometimes makes a Gratuitous. charge so that a profit remains after paying the mintage charges. The former method is known as

brassage, and the latter as seigniorage. In this country, **Brassage.** the term seigniorage is used to designate the **Seigniorage.** profits obtained by the government from the coining of subsidiary and minor coins. This profit, which has in recent years amounted to many million dollars, would disappear if the government were called upon to redeem these coins in gold. Actual profits result only with coins put in circulation and later lost or destroyed, so that they are not presented for redemption.

The Constitution gives to Congress the sole right to coin money and to regulate its value. It forbids the **Right to** states to coin money or make anything **coin money.** except gold or silver coin legal tender in payment of debts. Our present coinage system was introduced by the Mint Act of 1792. This act authorized the establishment of the mint and the use of the decimal system in the keeping of accounts. The chief **Gold coins.** gold piece was the eagle weighing 247.5 grains pure and 270 standard. Half and quarter eagles containing proportionate amounts of gold were also provided for. The fineness of metal in the coins was copied after that of England, and made eleven twelfths. The mint in 1795 coined a number of half eagles, the first gold coined under the Constitution. The fineness in 1837 was changed to nine tenths, and at the same time, a change was made in the weights of the coins. The eagles were changed to 232.2 grains pure metal and 258 standard, while the half and quarter eagles were changed proportionately. The double eagle and gold dollar were introduced in 1849, and the three-dollar piece four years later. The coinage of the last two



coins was suspended by an act in 1890. Gold coins are accepted, at their face value, the world over, and as a result, more than half the gold minted in the United State is held in foreign countries.

During the early part of the sixteenth century, a lucrative trade was carried on between many of the colonies and the West Indies. Many Spanish coins found their way into the colonies, and soon became the current coins in circulation. The best known of these was the Spanish dollar, and many colonies passed laws regulating its legal tender powers. The original American silver dollar, as provided by the Act of 1792, was modeled after the Spanish dollar, and weighed 371.25 grains of pure and 416 of standard silver. The standard weight of the dollar was changed in 1837 to 412.5 grains but the amount of pure silver was left unchanged. This change fixed the fineness at nine tenths, and both weight and fineness are the same to-day.

From 1837 to the passage of the coinage act in 1873, 371.25 grains of pure silver were worth more as bullion than coined into silver dollars, and as a result, few dollars were coined, and practically none found their way into circulation. The government did not think it necessary to have the silver dollar among the authorized coins of the country, and in the Mint Act of 1873 which revised the list of coins, it was omitted. The same act, in order to assist the American trade in the East, authorized the minting of a silver dollar weighing 420 grains standard and 378 pure silver. By accident, the new silver dollar, or

Silver  
dollars.

Omission of  
silver  
dollars.

Trade  
dollar.

trade dollar as it was called, was given the same legal tender power as subsidiary silver coins and soon confusion arose. The coinage of these dollars was discontinued in 1878, and in 1887 an act was passed authorizing the Treasurer to redeem in silver dollars or subsidiary coin all presented within a period of six months. Those not redeemed are only worth the value of the pure silver which they contain.

Soon after the passage of the act of 1873, silver became cheaper. The following year the silver bullion in the standard dollar could be purchased for 98.8 cents, and in 1876 for 89.4 cents. The friends of silver started a movement for the restoration of the old silver dollar, and in 1878 were successful in obtaining the passage of the Bland-Allison Act. This act restored the minting of the old standard dollar but limited its coinage to the government. The government was authorized to purchase not less than two million dollars' nor more than four million dollars' worth of silver monthly and to coin the same into standard silver dollars as authorized by the Act of 1837. The Bland-Allison Act remained in force until 1890, and during that time 378,166,793 silver dollars were coined. The friends of silver obtained further concessions under the Sherman Act in 1890, when the Treasurer was compelled to purchase four and a half million ounces of silver a month, and to issue Treasury notes in payment for the same. The silver purchased was to be minted into standard silver dollars at the rate of not more than two million ounces monthly until June 1, 1891, and after that date, the minting should be limited to

the amount needed to redeem the Treasury notes issued under the act. The Sherman Act was repealed in 1893, but silver dollars continued to be minted in small quantities until the end of 1904, and none have since been minted. The mint has coined 578,353,848 silver dollars, and of this amount, nearly 90 per cent is at present stored in the Treasury vaults at Washington.

The Mint Act of 1792 authorized the issue of silver half dollars, quarters, dimes and half dimes, proportionate in weight to the silver dollar. The Act of 1837 reduced their weights in proportion to the new standard weight of the silver dollar, and made their fineness nine tenths. The first important change was made by the Act of 1853. The high price of silver as compared with gold made the silver in the coins worth more as bullion than coined. The result was that the silver coins were taken from circulation either for melting purposes or for export to foreign countries, where they were sold at their bullion value. The coins disappeared from circulation, and in order to cause their return the Mint Act of 1853 reduced by nearly 7 per cent the weight of silver in the silver coins less than one dollar. This would make it unprofitable to melt or export the coins, and it was thought that they would return to circulation. A three-cent silver piece was provided by an act of 1851, and it and the five-cent piece were discontinued by the Act of 1873. In 1875, a twenty-cent piece was authorized but its coinage was discontinued three years later. The half dollar, quarter and dime are minted in sufficient quantities

to meet the demands of business, and the amount of each annually coined is decided by the Treasury Department.

A copper cent and half cent were authorized in 1792. An act in 1857 discontinued the latter, and provided that the former should be reduced in size, and in future be made out of a compound of copper and nickel. The three-cent nickel piece was authorized in 1863, and our present nickel in 1866. An act in 1864, introduced our present cent piece and also a two-cent piece of the same metal.\* The Mint Act of 1873 discontinued the two-cent and that of 1890 the three-cent nickel piece. Minor coins are furnished free of transportation charge from the Mint at Philadelphia and are obtainable in exchange at any subtreasury.

In order to raise funds to carry on the Civil War, the government in February, 1862, passed an act authorizing the Secretary of the Treasury to issue United States notes or greenbacks. \$150,000,000 in treasury notes on the credit of the United States, not bearing interest and payable to bearer. In the following June, another issue of the same amount was authorized and in January, 1863, \$100,000,000 more, bringing the total to \$400,000,000. In June, 1864, Congress authorized a temporary issue of \$50,000,000, and as soon as these notes were canceled, the maximum circulation should be fixed at \$400,000,000.

United States notes or greenbacks, as they were later called, soon won many friends. After the war, when the question of their redemption arose, there was much opposition. Nevertheless in 1866, an act was passed authorizing cancellation to the amount of \$10,000,000 for the first six months, and not

Cancellation of greenbacks.

more than \$4,000,000 a month thereafter. The friends of greenbacks eventually won, and the act was repealed in 1868, but during its enforcement, \$44,000,000 were canceled, which reduced the maximum to \$356,000,000. The Secretary of the Treasury, to relieve the panic of 1873, issued \$26,000,000 of the \$44,000,000 which had been previously canceled. This increase was legalized by special act of Congress the following year, and brought the maximum to \$382,000,000.

Many believed that the time had arrived for the redemption of greenbacks with gold, and in December, 1874, a measure later known as the Redemption Act passed the Senate, was agreed to by the House, and became a law on January 14, 1875. It authorized the redemption of greenbacks in coin on and after the first of January, 1879, when presented at the Assistant Treasurer's office in New York, in sums of not less than fifty dollars. The Secretary of the Treasury, in order to raise the necessary funds, was authorized to use any surplus in the Treasury not otherwise appropriated, and to issue and sell for coin at not less than par, United States bonds. Certain restrictions were removed from the issue of national bank notes and in order to prevent inflation of paper currency, the Secretary of the Treasury was authorized by the act to cancel United States notes to a sum not exceeding 80 per cent of the increased bank-note issue and at the same time not to exceed \$82,000,000. Cancellation slowly proceeded until an act was passed May 31, 1878, which forbade the further cancellation of greenbacks, and at the same time, authorized the reissue of any

Redemption  
of green-  
backs in  
gold.

redeemed. When the act went into force, the amount in circulation was \$346,681,016 and this arbitrary sum is to-day the maximum limitation on the issue of greenbacks. Since the first of January, 1879, the government has redeemed in gold all greenbacks presented for redemption. The Currency Act of 1900 provided a reserve of \$150,000,000 in gold coin and bullion for the sole purpose of redeeming legal tender notes on demand in gold.

A gold certificate is a warehouse receipt for gold coin or bullion on deposit at the United States Treasury at Washington. Gold certificates were authorized in 1863 but the first were not issued until two years later. The smallest denomination is ten dollars and the largest ten thousand. Gold certificates are a favorite currency with the people, as is shown by the fact that nearly \$950,000,000 are in circulation.

The silver certificate is a warehouse receipt issued by the government for silver dollars on deposit in the Treasury vaults at Washington. They were authorized by the Bland-Allison Act. The lowest denomination at first was ten dollars, but in 1886 one-, two-, and five-dollar certificates were authorized. During recent years, it has been the policy of the government to confine all currency under five dollars to silver certificates.

The Secretary of the Treasury was authorized to issue treasury notes of not less than one dollar or more than one thousand dollars to pay for the silver bullion purchased under the Sherman Act of 1890. These notes were redeemable in coin,

and could be reissued. As the silver bullion was coined into silver dollars, the treasury notes were canceled, the silver dollars placed in the Treasury, and silver certificates issued in their stead. Nearly \$156,000,000 of these notes were issued but all have been redeemed and canceled except between two and three millions, so they are at present rarely seen in circulation.

In the United States, bank note circulation is confined to national banks. State banks are not prohibited from issuing notes but do not do so, on account of a **Bank** prohibitory tax of 10 per cent, authorized in **notes.** 1865 and levied on all notes used for circulation as money except those of national banks. National banks are compelled by law to keep on deposit with the United States Treasury at Washington, United States bonds, dollar for dollar, for all bank notes issued, and are not allowed to issue an amount greater than their paid-up capital. The ordinary denominations in circulation are five, ten, twenty, fifty, and one hundred. Denominations of one and two were issued until the redemption of greenbacks in gold, and five-hundred and thousand-dollar notes are authorized, but none of the former and only a few of the latter are in circulation. Only one third of the notes issued by any bank can be of the denomination of five dollars. Each bank must redeem its own notes on demand, not only over its own counter but also at the Treasury Department in Washington. To provide for redemption at Washington, each must keep on deposit at the Treasury in lawful money a sum equal to 5 per cent of its circulation, to be held for the redemption of bank notes, when presented in sums of one thousand

dollars or any multiple thereof. Bank notes are printed by the government at the expense of the banks. Defaced or mutilated notes received at the Treasury are replaced by new ones at the expense of issuing banks.

Legal tender is money which a creditor must accept in payment of debt. Gold is the only money in the United States which possesses full unlimited legal tender power. Silver dollars possessed full legal tender power until the Revision Act of June 20, 1874, when by error their legal tender was limited to five dollars. The Bland-Allison Act in restoring the silver dollar, stipulated that it should possess full legal-tender power, for all debts public and private except where otherwise stipulated in contract.

Half dollars, quarters, and dimes until 1853 possessed full legal tender power, but the coinage act in that year limited their legal tender to sums not exceeding five dollars in any one payment. This remained in force until the act of June 9, 1879, declared that these coins should be legal tender in all sums not exceeding ten dollars in payment of all debts, public and private. The legal tender power of nickels and pennies was by the Mint Act of 1873 fixed at twenty-five cents in any one payment.

The acts authorizing the issue of greenbacks declared that they should be legal tender for all debts public and private, except custom duties and interest on the public debt. Later, the Supreme Court declared that they were not legal tender for taxes nor where any other money was specifically



mentioned in contract. Since greenbacks are redeemable on demand in gold, very little attention is paid to these restrictions upon their legal tender power.

Gold and silver certificates are receivable for customs, taxes, and all public dues, but are not legal tender for private debts. The treasury notes of 1890 are receivable for all public dues and are legal tender unless otherwise stipulated in contract.

**Gold and  
silver cer-  
tificates.**

National bank notes are receivable at par in all parts of the United States in payment of taxes, excise, and all other dues to the United States, except for duties on imports, and must be accepted for all salaries and debts owed by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and the redemption of national currency. The notes must be accepted at par in payments between national banks, but are not legal tender for private debts.

**Bank notes.**

Credit is the greatest economic factor in our industrial system and our progress would have been impossible without it. It does not arise until security and authority are thoroughly established.

**Importance  
of credit.**

Modern credit did not assume any importance until the dawn of the industrial revolution. The great progress of the nineteenth century was due more to credit than to any other factor. To-day there is not a large enterprise that does not owe a large part of its success to credit. By far the greater part of business is done through it, and its place in the industrial system is assuming greater and greater importance. Destroy the average

man's credit, and you destroy the possibility of his making a success. Blot out credit in general; ruin and destruction immediately follow. Daniel Webster once remarked that credit had done more a thousand times to enrich nations than all the mines of the world.

Credit may be defined as the power to obtain money, merchandise, or other consideration on the promise of future payment. The delivery of economic goods and

**Credit: its meaning.** the acceptance of a promise to pay depend upon the confidence, which the person making the delivery has in the person receiving, to meet the future obligation. Confidence in each other's honesty is accordingly the basis of credit. Remove that confidence and you destroy credit.

The granting of too liberal credit has in the past been the cause of bankruptcy and failure, and to-day is too freely practiced. The lowering of margins of profit demanded a careful study of credit, and the possibility of eliminating losses by discrimination in its use. Discrimination in giving credit has become a necessity in business, and has resulted in a careful study of the fundamentals on which it is based. The importance of the credit branch of a business is to-day recognized as one of the essential factors of business success. The special attention paid to credit has resulted in the formulation of certain principles which are profitable for business men to know.

Business men recognize that character, ability and capital are the three basic fundamentals of credit. These essentials should be considered in determining credit, but it is not necessary to have all present before

credit is granted. If all three are found, there is no hesitation in giving credit but they are rarely found in one case, and this demands a careful analysis of those found to determine the possibility of the person seeking credit failing to keep his promise. Good character and ability are often considered sufficient without the presence of capital. Good character, capital and no ability are considered poor risks, as well as ability and capital without character. No hard and fast rules can be laid down, but discrimination in granting credit is necessary, and depends largely upon the good judgment of the credit man.

**Basic  
funda-  
mentals of  
credit.**

A man's character is an important consideration in considering the acceptance of a future promise to pay. A reputation for honesty is a valuable business asset. Where this quality is lacking, few chances should be taken in giving credit. Moral habits, manners, associations, inclination to extravagance, estimate by business associates, and honesty, make up a man's character or business reputation. A careful knowledge of each attribute is necessary to estimate a man's character. A man with a good character can be depended upon to keep his promise when it comes due or as soon as he is able. Character is so essential in granting credit that many consider it the chief element. Character alone is very seldom a sufficient requisite, as in a business enterprise, the noblest character on earth without executive ability would be a very poor risk, but character and capacity seldom fail to obtain credit. It is true that a man without a good character

**Character.**

**Essentials.**

has no claim to credit and the granting of such by business men is always a great risk.

Next to character, ability or capacity attracts the most attention. The ability to successfully carry

on one's special business is a question which  
**Capacity.**

demands careful consideration. A grocer may be successful in his business and command good credit, but should he sell out and engage in a manufacturing business, the problem of credit becomes a serious one. He was a good grocer, but it does not follow that he will make a good manufacturer. Business done, profits, methods of management, contentment and efficiency of laboring

force, all should be considered in measuring  
**Tests of ability.** man's capacity. The foregoing are tests of efficient management in a going concern, and apply to corporations and partnerships seeking credit as well as to single entrepreneurs.

Credit is frequently asked by men to open new enterprises. Many have not had the experience of independently conducting a business undertaking, do

not possess more than a few hundred dollars  
**Credit for new undertakings.** in capital yet wish credit for many times what they possess. Such requests should not all be

discarded, for many prove good risks. Many of our most successful merchants and manufacturers had little capital to start, and had to rely on the credit given by those who believed in them. The decision when to give credit under such circumstances tests the ability of the credit man. The first consideration is the character of the applicant and too great emphasis cannot be placed upon the absolute necessity of a thorough

investigation into his character. If his character is not beyond reproach, the question of granting credit should not be any further considered.

Being satisfied as to character how can ability be judged? In the United States, about twenty-five per cent of the failures are due to lack of ability. What experience has the applicant for credit had in executive work? What knowledge has he of the business he wishes to undertake? Has he managed men, and if so, what has been his success? Is he thoroughly acquainted with the requirements of his proposed business? Is he a good judge of business conditions, resourceful, and industrious? These are some of the questions which should be considered. Usually the applicant has little capital, and his obtaining of credit depends almost solely upon character and ability. The picking out of risks that are good from those that are bad, demands sound judgment, and the ability to correctly read human character.

How to  
judge  
ability?

The third fundamental is capital, but it is secondary to the other two. In this country, about one third of the total failures results from lack of capital, and the largest percentage is in business enterprises where the liabilities are less than \$10,000. Capital. Many, to get trade, are willing to take excessive risks, and do not consider any of the fundamentals. Many business men furnish a full business outfit on credit, trusting to the customer's honesty and ability to make the concern a success. These excessive risks occur almost entirely in enterprises of small capital, and as we have seen, it is here that the greatest

number of failures occur. There is the greatest need for discrimination in the granting of credit to small enterprises. The amount of capital needed in any concern depends upon the size and kind of enterprise. No absolute rule can be given as to the amount of capital necessary before credit is given. Any one fundamental does not give sufficient basis for confidence, and credit should not be granted in such cases. The ideal risk, of course, is where character, ability and capital are present.

In established enterprises, many considerations connected with capital enter into the granting of credit. **Considerations related to capital.** What is the amount of insurance carried? What stock is carried? Is it excessive for the amount of business? Is business conducted on a cash basis? If credit is given, what is its extent? What amount is carried on books? What is the percentage of bad debts? These are a few of the questions which demand consideration in all kinds of business enterprises. Each question has a certain bearing on the possibility of a man, firm, or corporation meeting promises, and should not be overlooked by the credit man.

Many methods are in use for the gathering of data and information of importance to the credit man. During the last few years, a great improvement has taken place in the systematizing of information gathering. **Salesmen collectors of credit information.** Salesmen may perform an important service by carefully studying the business habits, reputation and methods of customers. Tact, care and discretion should be exercised in gathering the desired information so as not to be objectionable or repulsive. What do

associates think of customers? Are customers lavish in expenditures? Do they spend beyond their means? Are they intemperate? What are their business methods? What is the condition of stock? What is the feeling of employees toward the business? Is the business cash or credit? What is the amount of sales? What are the expenses? What rent is paid? What are the net earnings? This is information which a salesman is able to collect. Every salesman should make use of a card system and carefully index all information. It will not take long to gather important credit data which will be of invaluable service in the granting of credit.

Information,  
salesmen  
can gather.

Attorneys have been found valuable sources for the collection of credit information. In their business relations with men, they have an excellent opportunity for getting valuable information without disclosing professional secrets. Many lawyers are making a specialty of collecting credit data. The trouble in the past has been that credit men have expected lawyers to answer questions and furnish information without remuneration. Little attention was paid to giving information and little dependence could be placed upon facts received. A little system and the proper tabulation of information on cards give in a short time a valuable information bureau. The only incentive to collect and keep reliable information is proper remuneration. This induces lawyers to pay careful attention to facts, and makes them effective and reliable sources for gathering information for credit men.

Service of  
attorneys to  
credit men.

Credit men have for years made an extensive use of banks in seeking facts about persons wishing credit.

**Bankers should not be used by credit men.** Bankers usually look upon credit letters of inquiry as a nuisance, and they are justified in so doing. Many such letters find their way at once to the wastebasket, and if answered, it is usually with information of such general nature that little reliance can be placed upon it. The questions asked are usually concerning deposits, indebtedness, payment of bills, notes and drafts; such matters are private, and should not be disclosed. If a merchant discovers that his bank is giving information concerning his private affairs, he would be justified in at once changing his bank. Credit men should find other sources for information, as bankers cannot be expected to disclose private matters, and if they do, they are disloyal to their depositors.

The best known source for collecting credit information is the mercantile agency. Dun and Bradstreet are the two great agencies, and they are sought for information in every part of Canada and the United States. Numerous small agencies are found in all parts of the country, and many people think that the work of the agencies is indispensable to business. The usual practice in obtaining information is to collect periodical reports. Frequently business men are relied upon to fill out the reports, and in all such cases, a certain amount of uncertainty as to authenticity exists. The information given is usually based upon these reports, and as a result cannot always be relied upon.



A recent development in credit economy is credit interchange, which is an exchange of information between merchants concerning customers. The practice is to have local credit associations. Credit men are called upon to give from ledgers, the methods and promptness of customers in meeting their promises. The carefully arranged information is for the use of members, and exchange for credit data with other credit associations. Efficient credit associations are recognized as reliable sources for information. Their efficiency depends upon the questions asked, care in answering, the arranging and the filing of answers. Credit-association bureaus have a very important place in credit economy, and their extension to efficient state and national associations, will take over much of the work of the mercantile agencies.

Many business houses have traveling credit men visit their customers and gather necessary information. The traveling credit man talks over business affairs with customers, observes methods of doing business, inspects factory or stock, examines books, and gathers all possible facts bearing upon the character and ability of the customer. He may also gather much valuable information by reading local papers, and through conversations with the business acquaintances of customers. A good traveling credit man can perform valuable service, but tact, ability to read human character, and sound judgment are required to obtain the most reliable information.

Business men frequently ask the person seeking credit for references, and these are consulted personally

or by letter. The practice is very common throughout the commercial countries of the world. This source is not reliable, and credit men who depend solely upon it take many poor risks. The names given are usually those of business associates and friends who can be relied upon to make favorable reports. Many men consider credit inquiries a nuisance, and if they answer, do so in such a general way that the information given is of little value. This method of obtaining credit information is usually unsatisfactory and is rapidly being replaced by more efficient methods.

Business men to obtain credit are frequently asked to answer certain questions about business, as assets, liabilities, and methods of doing business. Carefully prepared printed forms are sent, and the business men are asked to fill them out and return. The reports are not only required when first obtaining credit, but at regular intervals as long as credit is desired. This method with the average business man is reliable and satisfactory. Efficiency depends largely upon the printed blank forms which should clearly state the needed information.

Business houses in many cities have special clerks who make investigation concerning persons with whom credit business is done. These clerks interview people given as references, places of business, and other places where the persons under inquiry trade. Many make acquaintances with friends, business associates, and clerks, and by adroit questions obtain valuable information. Irregularities are frequently dis-

**References.**

**Statements.**

**Oral information.**

covered and the demanding of payment often saves losses. Oral investigations are very helpful, and if properly conducted will yearly save many times the cost.

Credit has an important bearing upon every phase of industrial activity. Recent years have introduced many changes in credit giving, and the result has been a working, through the elimination of losses, towards greater business stability. Discrimination in credit giving is a very important business element, and one which if properly exercised often brings success in place of failure. The granting of credit demands not only a thorough knowledge of character, but ability to judge capacity, and the necessity of capital. No branch of business requires greater shrewdness, and has a greater bearing upon success than wisdom in granting credit.

### QUESTIONS

1. What is money? Mention the materials which have been used as money.
2. Name and explain the functions of money. Explain the different methods of charging for coinage.
3. Define coinage; restricted coinage; standard money; subsidiary money; standard gold.
4. Explain the system of redemption of coinage. Why is the redemption of the silver dollar indirect?
5. Give a short history of the silver dollar. What was the trade dollar?
6. Explain greenbacks; silver certificates; gold certificates; treasury notes; bank notes. Mention legislative acts affecting greenbacks, 1862 to 1879.
7. What is legal tender? Give legal-tender powers of different kinds of currency.

8. What is credit? Give its importance in our industrial system.

9. Name and explain the fundamentals of credit.

10. What should be considered in granting credit to new customers? What are the tests of ability?

11. What considerations are related to capital in granting credit?

12. How may a salesman collect credit information? What is the place of the attorney in credit economy?

13. Criticize the following methods of collecting information: (a) bankers; (b) references; (c) reports and statements.

14. What is the place of the mercantile agency in our business activities? Criticize its methods.

15. What is the function of the credit association? Upon what does its efficiency depend?

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## CHAPTER XV

### TRADE MARKS AND COPYRIGHTS

**The growing importance of the selling department.** **THE** production of goods after the introduction of the factory system increased at a rapid rate, and soon it was necessary for the manufacturer to seek distant markets. He could sell his goods but experienced great difficulty in holding the trade. Without some means of guaranteeing

the sale of his product, he was at the mercy of the jobber and the retailer, who could easily substitute other goods for his. The guarantee and safeguard

**Trade mark.** was found in the trade mark, and its importance as a factor in the commercial world soon assumed great significance. The ultimate consumer, whether he lived in Australia or in Italy, soon learned to call an article by its trade-mark name and could not be deceived by having another article sub-

**Protects the consumer as well as the producer.** stituted for it. In any part of the world, a child can be sent to a drug store for a cake of Pear's soap and all that it is necessary to do is to lisp "Pear's" and the desired article is obtained. The trade mark assures the consumer that he gets what he wishes, and at the same time, it serves to protect the manufacturer against the substitution of another article for his.

A trade mark is a person's commercial signature to his

goods. It is any device, sign, mark, symbol, word or words, letter, numeral, or any combination thereof used, or proposed to be used, upon or in connection with goods for the purpose of indicating their origin. The chief function of a trade mark is to point out origin. It must, when attached to goods on the market, distinguish them as to origin from other goods of the same class, but the origin may be indicated directly or indirectly through association. The manufacturer's or the dealer's name and address may be wholly wanting, and the indication of origin may be the result of an association between the trade mark and the article to which it is attached on the one hand, and the manufacturer or the dealer on the other. It is enough if the mark is of such a character as to indicate to the purchaser that all the articles bearing it come from one and the same source. Validity in every case depends upon pointing out the origin of the article to which the trade mark is attached, and this may be accomplished either in its own meaning or by association.

Its meaning.

Chief function to point out origin.

Origin may be indicated directly or indirectly.

Many people believe that the trade mark is a product of the factory system. Its extensive use is recent, but its existence can be traced back through many centuries. The practice originally grew out of the use of signs which were affixed to dealers' shops, and which were eventually placed on the goods sold from the shops. Water marks on paper, dating from the fourteenth century, are among the oldest trade marks. Throughout the centuries of its existence, the purpose of the trade mark has always remained the same,

Origin of trade marks.

*i.e.*, to indicate the origin of an article offered in the market.

A trade mark stands for a brand of goods, and after many years of use, it often becomes associated with the particular quality of the article to which it is affixed. It has frequently taken thousands of dollars and years of hard work to build up the reputation of the goods named by a trade mark. The value of a mark depends entirely upon the popularity of the article which bears its name. A trade mark is attached to the business where it originated, and cannot be transferred without transfer of business. After years of profitable business, a mark often becomes the most valuable asset of a business enterprise. It is difficult to place a definite value upon a trade mark, but in many instances, its estimated worth is placed at large sums. The trade marks of The American Tobacco Company were valued recently at forty-five million dollars, while Royal, as applied to baking powder, Uneeda, Ivory, Pear's, and Coca-Cola are each worth one or more million dollars.

Trade marks are not the creation of statute, as the right of the manufacturers to be protected by their use existed long before there was any trade-mark legislation. Before trade marks were protected by special legislation, cases of infringement came under common law. During the eighteenth century, a few scattered cases were decided, but they were almost wholly based on the question of fraud. It is a well-known fact that as soon as a thing becomes valuable or desirable, its regulation and protection become the



subject of legal enactment. The first traces of trade-mark legislation are found at the beginning of the nineteenth century, but the great mass of trade-mark law is the development of the last fifty years.

Trade marks, according to the Act of 1905, are registered in the United States Patent Office. The statute provides a definite procedure for trade-mark registration, lays down rules for validity, and provides that in case of infringement of registered trade marks, the decision rests with the federal courts. Every trade mark, when registered, becomes a part of the public records of the United States.

**Procedure  
provided by  
Act of 1905.**

Registration is not necessary in order that a person might receive legal protection for a trade mark's exclusive use, because its right is recognized by common law. The Supreme Court of the United States has declared that the right to adopt and to use a symbol or device to distinguish the goods and property made and sold by the person, whose mark it is, to the exclusion of use by all others, has been long recognized by the common law and by the Chancery Courts of England and the United States. Trade mark is a property right for the violation of which, damages may be recovered in a legal action. Trade marks existing under common law are protected by courts of equity.

**Trade  
marks pro-  
tected by  
common  
law.**

When litigation arises over the use of a trade mark, the user must prove priority in use and ownership. If registered, the public records establish the first use of the trade mark, but when not registered, the proper evidence is often hard

**Advantages  
of regis-  
tered trade  
marks.**

to obtain. In case of infringement of unregistered trade marks, the litigation does not come under federal law unless the parties are citizens of different states.

A fee of ten dollars is charged for registration of every trade mark. Registration remains in force for twenty years, and may be renewed upon expiration for like periods of twenty years, upon payment of a renewal fee of ten dollars.

An individual or a corporation has a right to register a trade mark, provided the applicant resides within territory under the jurisdiction of the United States, or in any foreign country which affords by treaty like privileges to citizens of the United States. The trade mark must belong to the applicant and be used by him in commerce within the state, with foreign nations, with the several states and territories, or with the Indian tribes.

An application for registration must be made to the Commissioner of Patents and comprises first, a petition requesting registration signed by the applicant ; secondly, a statement, giving the name, domicile, location and citizenship of the applicant, and if the applicant is a corporation or association, the state or nation under the laws of which organized ; thirdly, the class of merchandise according to official classification, and the particular description of goods in such class upon which the trade mark is actually used, or proposed to be used ; fourthly, a statement of the mode in which the trade mark is affixed to the goods and the length of time it has been used upon the goods specified ; fifthly, a description of the trade mark if desired by the applicant

**Fee and time.**

**Persons to whom granted.**

**Essentials of an application.**

or required by the Commissioner; sixthly, a declaration by the applicant that to the best of his knowledge, no other person, firm, corporation or association has the right to use such trade mark in the United States, either in the identical form or in such near resemblance that it might deceive, that such trade mark is used in lawful commerce and that the description and drawing presented truly represents the trade mark sought to be registered; seventhly, a drawing of the trade mark signed by the applicant or his attorney which shall be a facsimile of the same as actually used upon the goods; eighthly, five specimens of the trade mark; and lastly, a fee of ten dollars. The petition, the statement, and the declaration must be in the English language and written on one side of the paper.

All petitions are considered by the examiner in charge of trade marks. Careful investigation is made of each application, and if it is decided that the applicant is entitled to the registration of his trade mark, the mark is published at least once in the *Official Gazette*. Any person who believes that he would be damaged by the registration of a trade mark may file a written notice of opposition stating the grounds thereof within thirty days after the publication of the trade mark. Notice of opposition. Any opposition is null and void unless duly verified by the opposer within reasonable time after filing. If no notice of opposition is filed within the required thirty days, the applicant or his attorney is notified of the allowance of the application and a certificate of registration is issued. Certificate of registration. Whenever an application is refused, the appli-

cant is notified and given the reasons for refusal and such information as will assist him to judge of the advisability of further prosecuting his application.

Any person deeming himself injured by the registration of a trade mark may at any time make application to the Commissioner of Patents for its cancellation. If, after a hearing before the examiner of interferences, it is decided that the registrant was not entitled to the use of the mark on the date of his application for registration, the Commissioner, unless an appeal be taken within the required time limit, cancels the registration.

Whenever an application is made for the registration of a trade mark which is substantially identical with a trade mark issued previously to another, or for the registration of which, another had previously made application, or which so nearly resembles another as, in the opinion of the Commissioner, is likely to be mistaken by the public, an interference is declared. An interference is a proceeding instituted for the purpose of determining the question of priority of a trade mark between two or more parties claiming substantially the same mark.

If the examiner of trade marks renders an adverse decision upon an applicant's right to register a trade mark, or renew the registration of one, or when the examiner in charge of interferences refuses an interference, opposition or cancellation, an appeal may be taken to the Commissioner in person. From an adverse decision by the Commissioner in each of the above-mentioned cases, an appeal may be taken to

the court of appeals of the District of Columbia. A fee of ten dollars must accompany the filing of a notice of opposition and fifteen dollars for each appeal.

A trade mark, to be registered, must not come under the following prohibitions: a design or wording identical with the registered or known trade mark Restrictions in the granting of trademarks. owned or in use by another or which so closely resembles as to deceive or cause confusion in the minds of purchasers; the insignia of the American Red Cross Association; the flag or coat of arms of any foreign nation; any design or picture that has been adopted by any fraternal society as its emblem; the portrait of a living individual except with the consent in writing of the individual; the flag or coat of arms of the United States or of any state or municipality, or of any foreign nation, or any insignia thereof; immoral or scandalous matter of any kind; a geographical name or term; a misrepresentation of the quality, composition, character or origin of the article on which it is used; any mark which consists merely of the name of an individual, firm, corporation, or association not written, printed, embossed, or woven in some distinct manner, or used in connection with the portrait of an individual; devices which are descriptive of the character or quality of the goods with which they are used.

An applicant for a trade mark must be its owner, and use it in lawful trade. A trade mark cannot be obtained for future use, but the exposure for sale of a single article with mark attached meets the requirements of the law. A trade mark must be attached either by being

printed, pasted, written, stamped, sewed, or woven upon the article, but where not practicable to attach to the article, it may be affixed to the container. A mark must not be used for advertising purposes. A device used in circulars or on letter heads cannot be registered, or protected under trade-mark law.

The general class of merchandise, as well as the special article of that class for which the trade mark is used, must be stated in the application. The name for one kind of goods may be registered as the trade mark for another unrelated kind. The trade marks "Ideal," "Columbia"

and "Eureka" are used for many articles. Notice of registration. Notice of registration must be affixed, printed, or embossed upon the trade mark or close to it, so that it can be easily seen. This usually takes the form of the

words "Registered in United States Patent Office," or its abbreviated form. Such a notice is necessary because the owner of a trade mark, in legal proceedings arising out of infringement, cannot get damages, unless he can prove that he gave the party formal notice that the mark was his property, and that its unauthorized use was continued after notice.

Every man has a right to use his own name as his trade mark, but the court frequently designates the manner

of its use. A person bearing the same name as a competitor, or even one which resembles it, in such a way as to deceive the average purchaser will not be allowed to use it, in the same

manner, as the one proving priority. He may, nevertheless, use his name but it must be in some distinctive

form, so as not to confuse the buyer of the original article. W. H. Baker, a manufacturer of chocolate, and a competitor of Walter Baker & Co., was forbidden to use "Baker," "Baker's" or "W. H. Baker & Co.," but was required to use "W. H. Baker of Winchester, Va.," and also in prominent type the statement, "W. H. Baker is distinct from the old chocolate manufacturer, Walter Baker & Co."

Geographical names designating districts of country cannot be protected as valid trade marks. They do not point to the origin or ownership of an article, but to the place of production, and could they be appropriated exclusively, would result in monopolies. The name of a district belongs to

Geographical names not valid trade marks.

all, and cannot be appropriated to a special use. No one can use the name of a district as a trade mark, and prevent others inhabiting the district, or dealing in similar articles coming from the district, from using it, in the same way. There are some exceptions. If a word in its primary meaning is not geographical, it is not rendered incapable of registration, by the mere fact that it has been adopted as the name of a post-office, railroad station, or even a village or town. A geographic name which has no connection or association with a good may often be chosen as a trade mark, as for example, "Vienna" for bread, "Dublin" for soap, and "Gibraltar" for belting. These names are used to designate no particular locality connected with a business, but as fanciful designations to distinguish the product from others. No one would believe that the bread was made in Vienna, the soap in Dublin, or the belting in

A geographic name may under certain conditions be used as a trade mark.

Gibraltar. Again, a person using a geographic name for ten years previous to the passing of the Act of 1905, may have the same registered to the exclusion of all others, as "Elgin" and "Waltham" as applied to watches, and "Kalamazoo" to underwear.

A trade mark to be registered or recognized by the courts must not be a mark, merely descriptive of an article of trade, its qualities, ingredients, or characteristics. If, however, the primary object of the mark is to point out the origin, the fact that after long use it has come to stand for high quality is not of itself sufficient to debar it from protection. No objection can be raised to a trade mark, that is suggestive of the qualities of an article upon which it is used, if not actually descriptive thereof. Instances of descriptive words not protected under trade-mark laws are "Sweet Caporal," "Snowflake," "Desiccated Codfish," "Fig Syrup," "Cramp Cure," "Borax Soap," and "Cherry Pectoral."

Trade-mark laws will not protect any trade mark even if registered, if it can be proved, that it is deceptive or in any way tinged with fraud. A trade mark must not give a false impression as to the qualities, ingredients and characteristics of an article. Courts are very strict in refusing aid to any one, who has made misstatements, as to the ingredients of which an article is composed. If a trade mark represents an article as patented, and it is not, protection will not be granted. False statements in advertisements are as fatal as similar statements made in trade marks. The court will not give its aid to sustain

Trade mark  
must not be  
descriptive  
of article.

Protection  
not given  
to any trade  
mark tinged  
with fraud.



the claim of a trade mark, which is put forth with a misrepresentation, as to its manufacture. Protection is not given when a trade mark is used for articles other than the one for which it is registered. A trade mark will be refused if considered by government officials as contrary to public policy. A trade mark applies to a certain definite article, and not to all produced by the same person, but in Great Britain and Canada, the law allows a general trade mark to be affixed to all the different articles manufactured by one individual, firm or association.

A great variety of designs, symbols, words and combinations of these can be registered as trade marks, as for instance, a common word like "Star"; a personal word like "Hires"; a coined word as "Cuticura"; a fanciful name as "Sorosiss"; a fanciful phrase as "La Favorita"; letters as "O.K."; numerals as "303"; a picture or a symbol as Bull Durham; and a portrait as Robert Burns.

Various  
trade  
marks.

The owner of an article protected by patent cannot extend his monopoly after the expiration of the patent by incorporating into a trade mark the distinctive name by which his patented article was known to the public during the existence of the patent. If a trade mark has been in use for a patented article, and it has been sold as such, the right to the exclusive name ceases with the termination of the patent. A trade mark cannot be made the guise for extending the monopoly, or preventing the name from becoming, at the expiration of the patent, the property of the public.

Cannot use  
trade mark  
to extend  
monopoly  
of patent.

The owner of a trade mark is entitled to its exclusive use, and the law is strict as to any infringement upon that right. An infringement is any imitation of an existing trade mark of such a nature as to deceive the ordinary purchaser buying with usual care. The likeness may be in appearance, wording, or sound. The federal courts hold that the test is the deception of the purchaser exercising the usual care in buying. "Gold Dust" is infringed by "Gold Drops," "Cascarets" by "Castorets," "Sea Foam" by "Soda Foam," "Yusea" by "U-C-A"; but "Cuticle" does not infringe "Cuticura" nor does "Grain Hearts," "Grape Nuts." A similarity in meaning is not infringement. "Hurricane" and "Tempest," two trade marks of lanterns, are valid as well as "S. B." and "B. & S.," two marks for cough drops. Agreement among owners of conflicting devices is not recognized by the Commissioner of Patents.

The burden of proof lies with the owner of the trade mark alleged to be infringed. In the federal court, if the case of infringement is established, triple damages may be collected, and the offending party is forbidden to use the trade mark. Many states have passed laws making infringement of trade mark a penal offense, but in the federal court only civil action can be brought.

The invention of printing made copying easy, and authors demanded protection from theft of their published work. A statute in the reign of Queen Anne is the basis of the present copyright system of England and of the United States. It gave to the author of a work in ex-

istence, the sole right of publication for a period of twenty-one years, and for works produced in the future, the same right for fourteen years. In the latter case, if the author were living at the expiration of his term of copyright, it could be extended for a like term.

Statute of Queen Anne basis of our copyright law.

Two legal meanings are included in the word copyright. The first is the right which an author has in his copy. This is recognized as property and is protected by common law just like any other personal property. The second is the author's exclusive right to the publication of his work, which is not recognized by common law, and protection comes only through legislative enactment.

Copyright.

Its two legal meanings.

The Constitution of the United States gives to Congress the power to give authors the exclusive right to their works. Previous to 1790, twelve of the thirteen states passed copyright laws, but the federal act in that year made the state acts unnecessary. Amendments were made from time to time until 1909, when a law was passed, which repealed all previous legislation and provided for the whole subject of copyright by a new code.

Congress has power over copyrights.

Copyright protection is granted to an author if he is: a citizen of the United States; a resident alien domiciled in the United States at the time of the first publication of his work; or a subject of any country, which grants to citizens of the United States, the benefit of copyright on substantially the same basis as its own citizens. The same protection is likewise granted to a proprietor or a person who buys or

Qualifications for copyright protection.

obtains his title to a work from an author, and to executors, administrators or assigns of authors and proprietors.

According to the provisions of the copyright act any person qualified may have the exclusive right to print, reprint, publish, copy and sell a copyrighted work; **Privileges conferred by copyright.** translate the work into other languages; dramatize it; convert it into a novel or other non-dramatic work if it be a drama; arrange or adapt it, if it be a musical work; complete, execute and finish it, if it be a model or design for a work of art; deliver or authorize the delivery of lectures, addresses or sermons; perform or represent a drama publicly; sell any manuscript or any record of a dramatic work if not reproduced for sale or to make or procure the making of any transcription or record of the same by or from which it may in any manner or by any method be exhibited, performed or produced; exhibit, perform or produce any unpublished dramatic work in any manner or by any method; and perform for profit any musical composition or make any arrangement, setting or record of the same.

The following classes of work are subject to copyright : — all printed literary works published in the shape of a

<b>Productions subject to copyright.</b>	book, pamphlet, leaflet, card or single page.
	This class includes tabulated forms of information, tables of figures showing the result of mathematical computation, single poems, songs when published without music, librettos, descriptions of moving pictures or spectacles, directories, gazetteers, encyclopedias, catalogues, circulars or folders
<b>Books.</b>	

containing reading matter other than mere price lists, and literary contributions to periodicals or newspapers. It does not include blank books used in business, directions on scales, dials or other instruments, games, labels or wrappers, formulæ on boxes or bottles, advertisements or advertising catalogues, prefaces to books not entitled to copyright, or calendars.

**Exceptions.**

If calendars contain reading matter or pictures subject to copyright, they may be registered either as books or as prints, according to the nature of the matter.

Newspapers, magazines, reviews, serial productions, and in general, all periodical literature

**Periodicals.**

registered as second-class mail matter. Lectures, sermons, addresses or similar productions prepared for oral

delivery and dramatic compositions written in form of dramas, comedies, musical comedies, operas, or operettas. This does not include dances, ballets, tableaux, moving-picture

**Lectures, dramatic and musical compositions.**

shows, animal shows, sleight-of-hand performances, acrobatic or circus tricks, descriptions of moving pictures or settings for the same. Musical compositions published as either vocal or instrumental, with or without

words. All maps produced of a cartographical nature, including marine charts, but excluding astrological charts, landscapes, or drawings of regions which have no real existence.

**Maps and works of art.**

Works usually called fine arts, as paintings, drawings and sculpture. Reproductions of works of art, as engravings, woodcuts, etchings or casts, produced so as to contain in themselves an artistic element

**Reproduction of works of art.**

distinct from that of the original work of art. All draw-

ings or plastic works of a scientific or a technical nature produced as diagrams or models of scientific or technical works, architect's plans, designs for engraving wood, etc. Photographs made from photographic negatives or from moving-picture films, but not photogravures, half-tones or other photo-engravings. All prints and pictorial illustrations not included in the enumerated classes come under the law, but not mere ornamental scrolls, borders, ornamental letters, or forms of type. Copyright is not granted to puzzles, games, toys, rebuses, badges, buckles, pins, buttons, embroideries, laces, woven fabrics, novelties of any description, or post cards. The pictures on post cards may be registered as prints, pictorial illustrations, or as photographs, while the text matter may be of such a nature, as to be registered as a book. Trade marks cannot be registered in the copyright office.

Works subject to copyright are divided into two classes, unpublished and published. The first includes all productions which at the time of registration have not been printed or reproduced in copies for sale or public distribution. It comprises: lectures, sermons and addresses; dramatic and musical compositions; photographic prints; works of art; and plastic works. In the case of lectures, sermons, addresses, dramatic and musical compositions, one type-written or neatly written manuscript of the entire work, not an outline or epitome bearing the title of the work, must be sent to the copyright office. In the case of

works of art, models or designs, drawings, or plastic works, a photographic reproduction, and with photographs, a copy of a positive print, must be deposited. If an unpublished work is registered, and is later published, it must be again registered in the same manner as a published work.

The first step in securing a copyright is the publication of the work with the copyright notice inscribed in every copy. The second is the sending to the copyright office of two complete copies of the best edition of the work accompanied by an application for registration correctly filled out, and a money order for the legal fee. The law requires the deposit of the copies without unnecessary delay.

The usual form of notice is the word "Copyright" or the abbreviation "Copr." accompanied by the name of the copyright proprietor, and if the work be a printed literary, musical, or dramatic production, the notice must contain the year in which the copyright is secured. In the case of maps, photographs, reproductions of works of art, prints, etc., the notice may consist of the letter C inclosed in a circle as ©, accompanied by the initials, mark, monogram, or symbol of the proprietor, but it is required that the proprietor's name appear on some accessible part of the work. The notice of copyright must be applied: if a book, upon its title-page or the page immediately following; if a periodical, either upon the title-page or upon the first page of text of each separate number or under the title heading; or if a musical work, either upon its title-page or the first page of music. One notice

Steps  
necessary  
to secure a  
copyright.

Form of  
notice.

in each volume, or in each number, if a periodical, is sufficient.

The copyright law places many restrictions upon the printing of copyrighted works. All books in the English language to be copyrighted must be printed from type set within the limits of the United States. The same restriction of place is required: for texts of books produced by lithographic or photo-engraving processes; for illustrations in books except where the subjects represented in the illustrations are located in foreign countries and illustrate scientific works or reproduce works of art; and for the binding of all books. Books by foreign authors in any language other than English, and books in raised characters for the blind are not required to be printed or bound within the United States.

Books printed abroad in the English language, if registered in the copyright office, within thirty days after publication, may be granted an "ad interim" protection of thirty days from date of registration. To extend the period of protection to the full copyright term, an edition of the work must be published in the United States within the prescribed thirty days.

Application for registration must state the following facts, without which no registration can be made: the name and address of the claimant of copyright; the nationality of the author of the work; the title of the work; the name and address of the person to whom certificate is to be sent;

**Restrictions upon the printing of copyrighted books.**

**Ad interim copyright.**

**Facts necessary in application.**



and, with a published work, the actual date (year, month, and day) when the work was published. It is very desirable that the application should state for record the name of the author. If the work is published under a pseudonym or anonymously, the author's name may be omitted. Nationality means citizenship and not race. A subject of England should be described as English. An alien domiciled in the United States, applying for copyright, should expressly state the fact in his application. The title of the work, the name of the author and the name of the owner of the copyright should be correctly stated in the application and should agree with the same statements made in the work itself. Various application forms are furnished on request by the Copyright Office and should be used when applying for registration.

All books by American authors and all books in the English language must have the application accompanied by an affidavit showing the following facts: that the printing and the binding of the work was performed within the limits of the United States, naming in each case the place where the work was done and the establishment doing it; that the completion of the printing of the work was on a stated day; and that the work was published on a given date. The affidavit should be under seal, and may be given before any officer authorized to administer oaths in the United States, and who can affix his official seal to the instrument. It may be made by the person claiming the copyright, his duly authorized agent or represent-

**Affidavit.**

**Requirements.**

**Persons qualified to make an affidavit.**

ative residing in the United States, or the printer who printed the book. The person making the affidavit must state in what capacity he is acting. A foreign author applying for registration of a book in any language except English is not required to make any affidavit. An affidavit for a book in the English language printed abroad and registered for thirty days' copyright protection, need not be filed, until the extension to full copyright term is sought. The affidavit applies only to books.

**Punish-  
ment for  
false affida-  
vits.**

If any person in order to obtain registration of a copyright, knowingly makes a false affidavit, as to his having complied with the requirements of the law, he is guilty of a misdemeanor, and upon conviction, is subject to a fine of not more than one thousand dollars, and the forfeiture of all of his copyright rights and privileges.

Application for registration of periodicals is made in the same manner as for books, but an affidavit is

**Registra-  
tion of  
periodi-  
cals.**

not required. A separate registration is required for each number of a periodical published, with a notice of copyright, and cannot be made until after publication. If special registration is sought for any contribution to a periodical, one copy of the periodical containing the contribution should on publication be deposited in the copyright office. A clip-

**Registra-  
tion of  
contribu-  
tions to  
periodicals.**

ping of the contribution does not fulfill the statute requirement. The date of publication of a periodical should be stated in the application as the day on which the issue is first placed on sale, or publicly distributed. This may be earlier or later than the date printed on the title-page.

An ad interim application may be secured by depositing in the copyright office one complete copy of the foreign edition, with an application containing a request for the reservation, and a money order for one dollar. The application should state: the name and the nationality of the author; the name and nationality of the copyright claimant; and the exact date of the original publication abroad. Whenever, within the thirty-day period, an edition is made in the United States, and two copies are deposited, the copyright may be registered like any other book.

**Ad interim  
application,  
how ob-  
tained.**

All mail for the copyright office should be addressed to the "Register of Copyrights, Library of Congress, Washington, D.C." Copyright matter for deposit in the copyright office is sent by postmasters free of charge. Receipts for copyright matter delivered to postmasters may be secured on request.

**Copyright  
mail sent  
free.**

A fee of one dollar is required for copyright registration, but with photographs when no certificate of registration is required, it is fifty cents. Publishers for their own convenience often deposit a sum of money in advance against which each registration is charged.

A copyright secured under any copyright act of the United States may be assigned, granted or mortgaged by an instrument in writing signed by the proprietor of the copyright. An assignment should be recorded in the copyright office within three months after its execution in the United States, or within six months after its execution in any foreign country, in default of which it is void as against any later purchaser

**Assign-  
ment of  
copyright.**

or mortgagee for a valuable consideration, whose assignment has been duly recorded. When an assignment has been recorded, the assignee may substitute his name in the

**Time of copyright protection.** notice of copyright. A copyright is granted for a period of twenty-eight years, and is subject to renewal for a like period. The application

for renewal and extension should be made to the copyright office, and duly registered within one year prior to the expiration of the original term of copyright. If the copies required by law are not promptly deposited, the register of copyrights may at any time after the publication of the

**Punishment if deposit of books is not made.** work require the proprietor of the copyright to deposit them. After the demand has been made, and in default of the deposit of the copies within three months, from any part of the United States except outlying territorial possessions, or within six months from the latter or from a foreign country, the proprietor of the copyright is liable to a fine of one hundred dollars, to pay the Library of Congress twice the amount of the retail price of the best edition of the work, and to have his copyright declared null and void.

Any person who for fraudulent purposes inserts or impresses any notice of copyright as required by law, or words of the same purport upon any copyrighted article,

**Punishment for fraudulent notices.** or with fraudulent intent, removes or alters the copyright notice upon any article duly copyrighted is guilty of a misdemeanor, and subject

to a fine of not less than one hundred dollars, nor more than one thousand dollars. Any person who knowingly issues or sells any article bearing a notice of United States

copyright which has not been copyrighted in this country, or who knowingly imports any article bearing such notice or words of the same purport, which has not been copyrighted in this country, is liable to a fine of one hundred dollars.

The importation is prohibited in the United States of any work bearing a false notice of copyright when there is no existing copyright in this country, or of piratical copies of any work copyrighted in the United States. In the latter case, the prohibition does not apply to works in raised characters for the use of the blind; to a foreign newspaper or magazine unless the newspaper or magazine contains copyright matter printed or reprinted without the authority of the copyright proprietor; to authorized editions of books in foreign languages; or to any books published abroad with the sanction of the authors or copyright proprietors, when imported under one of the following circumstances: for individual use and not for sale; by the authority or for the use of the United States; for the use of educational or religious institutions, learned societies or libraries; when they form part of libraries purchased abroad for religious or educational institutions; when they are brought in as personal baggage and not intended for sale; or when the copies are not to be used to violate the copyright law.

Importation  
of piratical  
books.

Exceptions.

A copyright proprietor is protected against having his copyrighted work reprinted without his authority. The word piratical is used to designate copies without proper authorization. The question of infringement, or the unauthorized use of the work of

Piratical  
works.

another in part or as a whole is forbidden by statute. It is uncertain as to the extent that use may be made of the work of another, and not infringe. **Difficult to decide what is infringement.** The court generally holds that there must be copying of a large part of the whole. As to the meaning of a large part, it is difficult to say what constitutes an infringement. The court has held that literal repetition is not essential, but that infringement includes all the various means in which matter of a publication may be changed or imitated to disguise the original source. Any person who willfully and for profit infringes any copyright, or who knowingly aids such infringement is guilty of a misdemeanor, and upon conviction is subject to imprisonment for a term not exceeding one year, or a fine of not less than one hundred dollars, nor more than one thousand dollars, or both.

The circuit or district courts have jurisdiction over all cases arising under copyright law. From the circuit or district court appeals may be taken to the circuit court of appeals, and thence to the supreme court of the United States. No criminal proceedings can be instituted unless commenced within three years after the causes of action arise. **Federal courts' jurisdiction over copyright cases.**

## QUESTIONS

1. What is a trade mark? Give its purpose and origin.
2. What are the advantages of registered trade marks? What persons may register trade marks?
3. What are the requirements for a trade-mark application?

4. What are the restrictions in granting trade marks? Give the requisites for registration.

5. What is an infringement of trade mark? What is the punishment?

6. What legal meanings are included in the term copyright? What is the basis of our copyright system?

7. What are the privileges conferred by copyright?

8. What productions are subject to copyright protection?

9. What are the exceptions?

10. What must be done to obtain a copyright for an unpublished work? What for a published work?

11. What is the usual form of notice? Where should it be applied?

12. What are the restrictions placed upon the production of copyright books?

13. What is an ad interim copyright? Give its purpose. How may it be changed to a regular copyright?

14. What facts must be stated in application for copyright? What is an affidavit?

15. What is a fraudulent notice? What is the punishment?

16. What is an infringement of copyright? What is the punishment?

## REFERENCES

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## CHAPTER XVI

### PATENTS, TRADE NAMES, AND TRADE SECRETS

THE Constitution gives to Congress the power to promote the sciences and useful arts by giving to authors and inventors, for limited terms of years, the exclusive right to their respective writings and discoveries. Congress has, in accordance with this power, enacted certain laws and established the Patent Office.

Congress  
has power  
over  
patents.

An inventor has no natural right to the exclusive control of his invention. This is given by law, as a reward for his ingenuity, and as an inducement to encourage all to make discoveries.

Patent is  
reward for  
ingenuity.

There is no doubt, but what the inventive talent in the United States has been stimulated by the liberal reward awaiting the successful. The government in giving a patent enters into a contract with the inventor, that in return for giving his discovery to the public at the end of a certain period, the government gives him the exclusive control of his patent during that time, and protects him in this exclusive right against all others.

An invention to be protected by a patent must not only be capable of being used but its use must confer a benefit on mankind. The benefit must be present but the law is fulfilled if it is indirect and slight. If a discovery is immoral, or its use is only for illegal purposes, it is not subject to patent.

Invention  
must confer  
a benefit  
on man-  
kind.

An invention is not complete until it has been put in actual practice. The thinking out of a discovery in all its details, minutely describing it to another person, or reducing it to a drawing does not make it complete. There is no proof that the discovery is workable, it may prove a decided failure. Until the invention is operative, nothing has been produced that confers a benefit on mankind. The inventive art is complete when an inventor has successfully put his discovery into operation.

To be complete must be put into actual practice.

When an inventor has carefully thought out all the details of his discovery, and nothing remains, but putting it into concrete form, he has conceived the invention. It takes some time to reduce a conceived invention to concrete form. The law allows an inventor to take his date of conception, as the date of his invention. But the law insists that the inventor shall show that he has not abandoned his idea, and has been diligent in seeking to put it into practice. The reduction to practice does not mean that the concrete form must be perfect, it may be rudely constructed, but it must accomplish to a reasonable extent, the purpose for which it is intended. If two persons lay claim to the same discovery, the important question for the Commissioner of Patents to decide is that of priority. The date of the conceived invention, if properly verified, will be accepted as necessary proof of priority. It is essential that every inventor not only note the date of his conceived invention, but verify the date, by statement in a diary or a drawing witnessed by a second person.

A patent may be obtained by any person who has in-

vented any new and useful art, machine, manufacture, composition of matter, or any new and useful improvement of either, provided that it is not known, used by others, sold, or described in any printed publication in this or in any foreign country during a period of two years previous to his application, and that it is not patented in any foreign country on an application filed more than twelve months before his, unless the invention is proved to have been abandoned by the actual discoverer.

**Require-  
ments for  
a patent.**

If it is proven that the inventor at the time of making his application believed himself to be the first inventor, a patent will not be refused on account of the invention, or any part thereof, having been known or used in any foreign country before his invention, provided that it was not patented on an application filed more than twelve months before his, or described in any printed publication. The receipt of letters patent from a foreign government will not prevent the inventor from obtaining a patent in the United States unless the application on which the foreign patent was granted was filed more than twelve months prior to the filing of the application in this country. If so, the patent will be refused.

**Importance  
of publica-  
tion of dis-  
covery.**

The applicant for a patent must if alive and not insane be the inventor of what is sought to be patented. If a person becomes insane after having made an invention, his guardian or legal representative may apply for the patent. In case of the death of an inventor, his executor or administrator may make application and obtain the patent. A minor or a married

**Persons  
who may  
acquire  
patents.**

woman may be granted a patent. The protection of the patent law is extended to foreigners as well as to citizens of the United States.

An application for a patent must be made to the Commissioner of Patents, and be signed by the inventor,

**Application.** if alive, or his executor or administrator, if dead. A complete application comprises a fee of fifteen dollars, a petition, a specification and oath, drawings, and a specimen when required. The petition,

**Essentials.** specification and oath must be in the English language. All papers which are to become a part of the permanent records of the office must be legibly written or printed in permanent ink.

The petition is addressed to the Commissioner of Patents, and must state the name, residence, and post-

**Petition.** office address of the petitioner, name by title the invention sought to be patented, make a reference to the specification for a full description of such invention, and be signed by the applicant.

The specification is a written description of the invention or discovery, the process of making, constructing or compounding it, and its manner of use. It is required

**Specifica-  
tion.** to be stated in clear, concise and exact terms, so as to enable any person skilled in the art or science to which the invention or the discovery belongs, or with which it is most nearly connected, to make, construct or compound and use it. The specification must clearly and precisely explain the invention

**Essentials.** for which the patent is sought, and explain it in such a manner as to distinguish it from other inventions. If it is an improvement, the speci-

cation must clearly point out the parts to which the improvement relates, and must by explicit language distinguish between what is old and what is claimed as new.

The claims of the inventor must be so stated that a broad construction can be placed upon them. A patent is of little value if another person can, in spite of it, by a slight variation of the article patented, make it. The application writer

**Claims of  
inventor  
how stated.**

should bear in mind, that a most important matter of consideration, is the interpretation placed upon the wording of the specification by the courts. Frequently a patent has been rendered practically valueless by the use of some term which correctly described the invention, but the interpretation of the court narrowed its scope. Extreme care should be taken that the specification so broadly explains the claims that it embodies not only what is claimed in the drawings, but also as many variations as possible. The rights of an inventor depend upon the claims in his patent according to their proper construction, and not upon what he erroneously supposes it to cover. The specifications

must clearly disclose every essential element of the invention or the patent will be void. Any part not disclosed in the application as first filed cannot later be legally inserted. But matter not completely disclosed may be later fully explained by an amendment with a supplemental oath, provided that it was invented by the applicant before his application was filed. A patent is void if the patentee, for the purpose of deceiving the public, discloses more or less than his real invention.

**Every  
essential  
element  
must be  
disclosed in  
specifica-  
tion.**

The applicant must make oath or affirmation that he does believe himself to be the original or first inventor

**Oath.** of that for which he solicits a patent, and that he does not know and does not believe that the same was ever before known or used. He must also state of what country he is a citizen, and his place of residence.

The applicant must furnish a drawing of his invention whenever it is capable of illustration.

**Drawing.** The drawing must show every feature of the invention covered by the claims.

A model is only required when the primary examiner, on examination of the case in its regular order, finds

**Model.** it necessary or useful. In such cases, if a model has not been furnished, the examiner notifies the applicant of such requirement. When a model is required, the examination is suspended until it is received and filed. It should clearly exhibit every feature of the machine which forms the subject of a claim of invention, but should not include other matter than that covered by the actual invention or improvement, unless it be necessary for exhibition of the invention in a working model. The model should be neatly and substantially made of durable material, metal being preferable, but when the material forms an essential feature of the invention, the model should be constructed of that material. The model must not be more than one foot in length, width or height, except in cases where the Commissioner admits working models of complicated machines of larger dimensions.

An interference is a proceeding for the purpose of

determining the priority of an invention between two parties claiming the right to obtain a patent for practically the same invention. The obtaining of a patent on the invention in dispute by one of the parties will not prevent an interference. The Commissioner of Patents has not the right to cancel a patent, but may grant a second patent for the same invention, and leave the settlement of the question of priority to the courts.

When a notice of interference is received at the Patent Office, the examiner of interferences makes a careful examination. If the issue between the parties is not clearly defined, he refers it to the primary examiner who decides whether or not the notice should be amended. When a disagreement arises between the two examiners, the matter is referred to the Commissioner for settlement. During the preliminary proceedings, the primary examiner has jurisdiction of the case. The issue must be clearly defined; the invention must be decided to be patentable; and the claims of the respective parties must be put in such condition, that they will not require alteration after the interference has been finally decided, unless the testimony brought forth in the trial justifies a change. When an interference is found to exist, the examiner of interferences names the time for filing the preliminary statements and declares the interference by sending notices to the different parties concerned. The jurisdiction of the case now passes to the examiner of interferences. The preliminary statement, which must be filed by each party, must set forth

**Inter-  
ference.**

**Procedure  
after notice  
of interfer-  
ence is  
received.**

**Prelimi-  
nary pro-  
ceedings.**

under oath the date of the original conception of the invention, when the first drawing was made, when the model was made, the date of the disclosure of the invention to others, when it was reduced to practice, and a statement of the extent to which the invention had been used.

After the preliminary statements have been filed and approved, they are open for inspection by the contesting parties. Thirty days are allowed for making motions

**Parties to  
inter-  
ference.**

for the filing of amendments. The party who filed his application is considered to be the first inventor, and is called the senior party or the defendant, while the later applicant is known as the junior party or the plaintiff. Dates are set for the taking of affidavits, the junior party first, then the senior party, and finally the junior party in rebuttal. The witnesses are examined as in an ordinary court of law. When the testimony is complete, the case is argued before the examiner of interferences, and he gives a decision, giving priority to one or the other of the parties. An appeal may, upon the pay-

**Appeals.**

ment of ten dollars, be taken to the examiners-in-chief, a board of three judges, and an adverse decision by them may, with the payment of twenty dollars, be taken to the Commissioner. An appeal from the Commissioner's decision may be taken within forty days to the court of appeals of the District of Columbia. The case in this instance is decided upon the record as sent from the Patent Office. The fee for this appeal is fifteen dollars. If the decision of the court is adverse, a bill in equity may be filed to compel the granting of the patent.



A patent gives a protection for a period of seventeen years. A person has not the exclusive right to his invention until he receives a patent, and consequently cannot recover damages for infringement prior to the date of his patent. A patent cannot be extended except by act of Congress. The government does not guarantee the validity of a patent nor its priority. Such matters are settled by the courts. In this country, taxes are not levied on a patent, nor is its owner compelled to operate it. It is not necessary for the owner of a patent to put it in operation during the period of its existence. The majority of foreign countries levy taxes on all patents, and compel the owners to work or operate them. If the patent is not operated, the owner abandons it, and the people are entitled to its benefit, and are allowed to use it.

Time of  
patent.

Foreign  
patents.

A patent gives to its owner the exclusive right to make, use and sell the patented invention throughout the United States and territories. The production, use and sale of the patented invention without the consent of its owner is an infringement and illegal. The infringement of any part is an infringement of the patented invention. The United States, a state, or a municipality cannot infringe a patent.

Infringe-  
ment.

A person owning a patented machine has a right to keep the same in working condition by repairs. If a part wears out or is broken, he may usually make the part, but cannot construct a new machine. No definite rule can be stated dividing legitimate repair and illegal construction, but each case must be decided on its particular circumstances.

Right to  
keep  
patented  
machine in  
repair.

To constitute an infringement, it is not necessary, that the identical device given in the patent drawings be used. The substitution of anything which accomplishes substantially the same result, in practically the same way, and was known as a proper substitute at the time the invention was made, is usually an infringement.

**What constitutes an infringement?**

Frequently it is advisable to have a search made by a competent person through the patents in the Patent Office to find if an invention infringes any other. This occurs usually when a person wishes to produce a certain invention, and wishes to protect himself against later charges of infringement. The search may assure the manufacturer that his invention does not infringe any prior patent, and that he is free from a possible suit for infringement.

**Patent search.**

**Purpose.**

If a patent is found which covers his invention, it may be possible to change his device so that it will not infringe. Upon the failure to do this, the only recourse is to buy the patent, or obtain a license to produce or use it.

The Constitution gives to the United States courts jurisdiction in patent suits. As soon as a person learns that his patent is being infringed, he notifies the infringer in writing to cease violating his right. If the infringer refuses, the complainant usually goes to the court, and asks for a preliminary injunction. This is not granted unless the complainant proves to the court's satisfaction, that he has the title to the patent, that the patent is valid, and that the defendant has infringed. The

**United States jurisdiction over patent suits.**

**Injunction.**

injunction if obtained forbids the infringer from using the patent until the decision of the suit.

The evidence is usually taken before a master appointed by the court. Witnesses can be subpoenaed to attend.

When all the testimony is taken, it is printed, Procedure in case of infringement. and the case is argued before the court. If a decision is given in favor of the complainant, the decree usually sustains the validity of the patent and awards a perpetual injunction against the infringer. If the complainant has asked for profits, damages or both, the matter is usually referred to a master who investigates and reports to the court, the amount of profits and damages found. The court makes a final decree which may include profits, damages or both, as well as the injunction. The court has the power to increase the amount of damages found to any sum not exceeding three times the amount of the actual damages. If the decision is in favor of the infringer, the case is dismissed. The court uses its discretion in awarding costs. From the final decree, an appeal may be taken to the circuit court of appeals of the District of Columbia.

A person selling a patented article should give due notice to the public that it is patented. This is usually done by attaching to the article, the word "Patented," together with the day and year, Notices for patented articles. the patent was granted. Where it is impracticable to attach the notice to the article, it may be affixed by label either to the article, or to a package containing one or more of the articles. In a suit for damages as a result of an infringement, a person failing to give notice by properly marking his articles cannot recover damages,

unless he gives proof that the defendant was duly notified of the infringement, and continued after such notice to make, use, or sell the article patented.

The law is very strict against any fraudulent use of patent marking. It forbids any person marking upon anything made, used or sold by him, for which he has not a patent, the name or any imitation of the name of any person who has a patent therefor, without the consent of the patentee or his legal representative. The word "Patent" or "Patented" or the words "Letters Patent" must not be affixed to any patented article unless by the patentee, or with his consent, or that of his legal representatives. The word "Patent" or any word or words implying that an article is patented must not be affixed to any unpatented articles. A person guilty of any of the above offenses is subject to a fine of not less than one hundred dollars with costs.

A patent is property and can be sold, transferred by gift or bequeathed or mortgaged like any other property.

**Patent is property.** The assignment of a patent transfers the exclusive right to it. A person may, by grant, transfer the exclusive right to make, use and sell under the patent within some specified district, as in one state, or he may by license transfer the right to make alone, to make and sell, or to make, use and sell under the patent.

The Patent Office notifies an applicant if his claim is rejected, states fully the reasons for this action, and furnishes such information and references as may be useful in aiding the applicant to judge of the advisability of prosecuting his application, or of altering his specifications. If, after receiving notice,

**Rejection of claim.**

an applicant presents his claim with or without altering his specification, the application is reëxamined. If, upon reëxamination, the claim is again rejected, the reasons must be fully and precisely stated.

The applicant has the right to amend before or after the first rejection, and may amend as often as the examiner presents new references or reasons for rejection. In an amendment, the applicant should clearly point out all the patentable novelty, which he thinks the case presents, in view of what is shown by the references cited, or the objections made. He should also show how the amendments avoid such references or objections.

When an application has been twice rejected, for the same reasons upon grounds involving the merits of the invention, or when amended, for want of identity with the invention originally disclosed,

#### Appeals.

or because the amendment involves a departure from that originally presented, the applicant may, upon payment of a fee of ten dollars, appeal from the decision of the primary examiner to the examiners-in-chief. Upon the filing of the appeal, it is submitted to the primary examiner, who will, if it is found regular in form, furnish the examiners-in-chief with a written statement of the grounds for his decision on all points involved in the appeal, with copies of the rejected claim, and with the references applicable thereto. From their adverse decisions, appeals may, with the payment of proper fees, be taken as in interferences, to the Commissioner, and then to the court of appeals of the District of Columbia.

An abandoned application is one which has not been completed, and prepared for examination within one year

after the filing of the petition, or which the applicant has failed to prosecute within one year after the date, when the last official notice of any action of the office was mailed to him. An applicant may expressly **Abandonment.** abandon his application by filing at the office a written declaration of abandonment. The prosecution of an application to save it from abandonment must include such proper action as the condition of the case may require. Before an application abandoned by failure to complete or prosecute can be revived as a pending application it must be shown to the satisfaction of the Commissioner, that the delay in its prosecution was unavoidable. When a new application is filed in place of an abandoned or rejected one, a new petition, specification, oath, drawing and fee are required, but the old model, if suitable, may be used.

A forfeited application is one upon which a patent has been withheld for failure to pay the final fee within the prescribed time. When a patent has been **Forfeited application.** withheld because of the non-payment of the final fee, any person, whether inventor or assignee who has an interest in the invention, may file a renewal of the application for the same invention. The second application must be made within two years after the allowance of the original application.

Two persons are joint inventors if, by mutually working together and mutually contributing ideas, they make a discovery. They are entitled to a joint **Joint inventors.** patent. Neither can obtain a patent for an invention jointly invented by them. Independent inventors of distinct and independent improvements in

the same machine cannot obtain a joint patent for their separate inventions. If one person furnishes the capital and another makes the invention, they cannot make application as joint inventors. In this case, the inventor can make an assignment of an undivided part interest to the one who supplied the capital, and upon request, the patent will be issued jointly to the inventor and the assignee.

A design patent may be obtained by any person who, by his own industry, genius and expense, has invented any new and ornamental design for an article of manufacture not known, or used by others before his invention, or patented, or described in any printed publication. The prerequisites for obtaining an ordinary patent usually apply to designs. A design to be patentable must be more than mere mechanical skill. Any person who infringes a patented design is liable to a fine not exceeding two hundred and fifty dollars. If the profits awarded exceed that amount, he is also entitled to the excess. Damages and an injunction may also be awarded. Design patents are given, at the option of the applicant, for three and a half, seven, or fourteen years. The fee is respectively ten, fifteen, or thirty dollars. The practice as to designs, in general, follows very closely that for patents, and nearly all the regulations and provisions which apply to the latter apply also to the former.

A trade name is the name under which a business is carried on, or by which it is known in the trade. People come to regard the name under which a business has been conducted for years, as an assur-

ance of the quality of the article bearing it. The name then becomes a valuable asset, and the owner is entitled to protection from an unfair use of it. Where the name is one which can be exclusively appropriated, the court protects the owner from any infringement, but where the name is descriptive or a geographical term, or one which others have an equal right to use, the court only interferes to prevent unfair competition in business.

A trade name differs from a trade mark in that it is not affixed to a commercial article. A trade name, like Lord and Taylor, is applied to a business where hundreds of articles bearing trade marks are sold. The name of a business may at the same time be both a trade name and a trade mark. It may be the name of a business undertaking, or point out the place of business. This makes it a trade name. It may be affixed to the article produced by the undertaking, and it may then become a trade mark.

The simplest form of a trade name is the name of an individual used as the name of a business. The name by which a person conducts a business need not be his christian name or his surname. A person may assume for the purposes of trade any name not prohibited by law, and will be protected in its use, the same as if he had used his own name. If a person assumes an arbitrary or fanciful name under which to conduct his business, he may acquire the exclusive right to its use. But if a person uses his own name, or a selected name, he cannot exclude another person, having the same name from using it honestly and in good faith

**When protected by the court?**

**Trade name vs. trade mark.**

**The choice of a name for a business.**



as a trade name, because every person has a right to use his own name in the conducting of his business. The use of one's own name can only be limited when such a name has become the trade name of another, and the later user is using it in a manner to deceive the purchasers or defraud the party who made it valuable. When it can be proven that the use of a trade name is unfair to the former user of the name, the court interferes and prohibits the later user, not from the use of the name, but from using it in such a way as would deceive the people. Every man has a right to use his own name in his business, even though he may thereby interfere with or injure the business of another person bearing the same name, provided he does not resort to any scheme or artifice to produce the impression that the establishments are identical.

**Limitations upon the use of a person's name.**

The name of a place where a business is located usually constitutes a valid trade name. It is immaterial whether the name is original with the user, or had been used in other places sufficiently remote so that no conflict occurs. Thus, there may be a Columbia Hotel in every town, and the name is a valid trade name for every one. But if a person opens a hotel in a town and calls it the Astor House, the court will protect him in his trade name and not allow any person to open another hotel by the same name in that town. "Saratoga" and "What Cheer" have been protected as trade names for restaurants, "New York Dental Rooms," "Mechanics' Store," "Six Little Tailors," "Christy's Minstrels" are cases of other protected names.

**Valid trade names.**

Goodwill is the advantage or the benefit which comes to a business by reason of good name, reputation, situation or connection. The probability that old customers

will continue to patronize a business in consequence of the way in which the business had been previously conducted is often a valuable

asset. Goodwill is the advantage which an old established business has over a new business at its first start. However extended its influence may be, goodwill is worth

nothing unless it has the power of attraction sufficient to bring customers to the business of which it is a part. Goodwill has no separate, independent existence, and no meaning unless connected with some trade, business, or calling. Destroy the business unit and the goodwill is destroyed, though some elements may remain, which may be gathered together and be revived again.

Goodwill was formerly held as closely related to the place where the business was conducted rather than to

the business itself. Location is usually a very important factor, and in many business units there can scarcely be any goodwill apart from the place where the business is carried on. But

where the reputation of the business is widely known, and where the product rather than the place of production or its manufacturers has won public favor, it is difficult to localize goodwill. The goodwill of a magazine, newspaper, or widely known goods are good examples. With a magazine or an article like Coca-Cola, it is immaterial whether the place of production is New York or Boston, as far as the goodwill is concerned. The location of the

parent business unit is of little consideration. But with a hotel or a retail store, location is a very valued part of goodwill. A long-established firm, on retiring from business will have little difficulty in finding a person who, wishing to go into a similar business, will be willing to give a certain amount, frequently a large amount, for the probability that customers who have patronized the old firm will continue to trade with the new. The importance of location, as an element of goodwill, varies in every instance with the character of the business.

The name of a business is a very important factor in the goodwill of many enterprises. A firm stamps its name upon its articles as a guarantee that they were sold or produced by the firm. Its name rather than its members becomes known to the public. Frequently the members have been entirely changed and not a single member remains whose name is exposed in the firm.

**Name of  
business  
is often  
important  
factor in  
goodwill.**

The business is nevertheless continued under the old name because customers are accustomed to it, satisfied with the treatment received, and will continue to patronize it. A long-established firm has its long list of customers, who are satisfied with their goods and methods of doing business, and this means the assurance of considerable business. The good name and established reputation connected with the firm's name are frequently the most important assets of many business enterprises.

As early as the eighteenth century, the goodwill of a business was recognized as of considerable value. By the first quarter of the nineteenth century, legal enforcement of contracts for the sale of

**Goodwill is  
property.**

goodwill were of frequent occurrence. Goodwill to-day, like any piece of property, may be bought, sold, bequeathed, or treated in bankruptcy proceedings the same as the bankrupt's other property. The person possessing it, is entitled to its exclusive use and will be protected in the same by the courts.

A trade mark or a trade name cannot exist separate from the goodwill of the business with which it is connected. If a trade secret is a part of an enterprise, the goodwill cannot be sold without the secret. The connection between the business and its goodwill is so close that the sale of a business or a share of it carries with it, the goodwill or a corresponding share in the goodwill even if not specifically mentioned.

A secret is that which is concealed from general knowledge. Secrets of various kinds play an important part in business. A secret composition or secret process of manufacture, a recipe for a medicine, confidential information of various kinds, are some of the trade secrets which sometimes are valuable assets in business enterprises. The owner of a trade secret has absolute control over it. He may use it in making goods for sale or he may not. He fixes his own price for his product, but his control over his goods ceases with his sale of them.

The law does not protect a person who makes an article from a secret in the same way that protection is given to a patent or a trade mark. He has a property right in his secret, but not a special property right as the owner of a

Close connection between business and goodwill.

Trade secret.

Protection not of same nature as that for trade mark.

patent. A secret is valuable only so long as it is a secret. When it becomes general knowledge, its advantage to the owner usually ceases, and the former protection is withdrawn.

The owner of a trade secret discovered by unfair means will be protected against its use by others. If a person has a trade secret and employs persons under contract, expressed or implied, these persons cannot use the knowledge obtained of the secret against the employer. Secrets given to confidential employees must not be disclosed, and the court will restrain any party from using them. If a clerk leaves an employer and goes to a competitor, and tells a trade secret, the rival will be enjoined from using it, and may be compelled to account for any profits that may have accrued from the use of the information. The court simply protects the employer's property right in the secret. The disclosure of methods of business, processes of production, recipes for medicines, and all sorts of confidential information is illegal and protection will be given by the courts.

Protection  
given if  
trade secret  
is discovered  
by unfair  
means.

A secret legally discovered may be used by the discoverer. If a person by his own efforts discovers a secret, he has a right to use it. The ingredients of a formula of a medicine sold publicly may be obtained by a study of the medicine itself and used. The secret of the method of manufacturing may honestly be obtained by a study of the manufactured article. If a person acquires the secret information honestly, he may, assuming that there is no patent, use it as he likes. After

Secret  
legally  
discovered  
may be  
used.

the death of an owner of any unpatented process, any one who honestly discovers it, may use it for mercantile purposes, and even use the name of the original discoverer.

Persons employed for the purpose of devoting time and brains to discovering new methods relating to the business of their employer have no claim to their discoveries. The employer is entitled to all inventions and secrets discovered by his employees, who are paid to devote their time to that work. If a person, while employed as an inventor, discovers a valuable process and tries to get more for it than his salary, the court will compel the employee to disclose the process, as legally it belongs to his employer.

**Employer entitled to all inventions and secrets made by employees paid for the purpose.**

A trade secret is property just as much as a piece of land. The owner of a secret has absolute control over it. Trade secrets may be transferred by sale, bequest or gift. If a person sells for a valuable consideration a trade secret, he has no right to reveal it to a third party. The assignment of a trade secret carries with it the right of protection.

**Trade secret property.**

## QUESTIONS

1. What are the requirements for an application for a patent?
2. What is a conceived invention? What is its importance?
3. What is a specification? Why should it be carefully worded?
4. What is an interference? State its purpose. Give procedure.

5. What is a caveat? State its purpose. What rights does it confer?

6. What is patent infringement? What determines an infringement?

7. Why is it necessary to mark patented articles? What is the punishment for fraudulent marking?

8. What may a person do in case his application is rejected? What are the different appeals?

9. What is an abandoned application? What is a forfeited application?

10. What are design patents? Give requisites. What is the punishment in case of infringement?

11. What is a trade name? When is it protected by court?

12. What is the limitation upon the use of a person's name in business?

13. What is goodwill and give its characteristics?

14. What is the importance of location in goodwill?

15. What is a trade secret and when is protection given to it?

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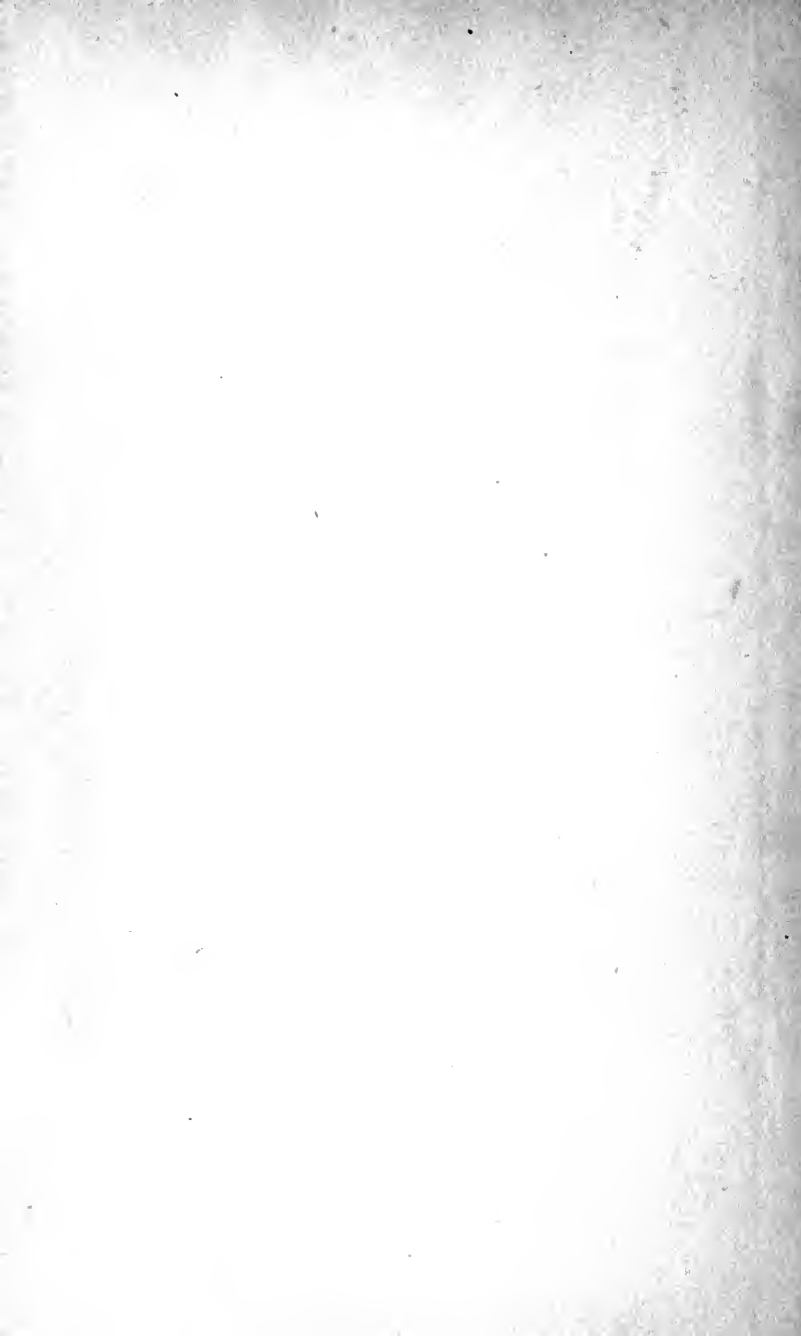
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